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United Nations

United Nations Joint Staff Pension Fund

Report of the United Nations Joint Staff Pension Board

Fifty-seventh session (15-23 July 2010)

General Assembly
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Sixty-fifth Session
Supplement No. 9

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Note

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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Abbreviations

CCISUA	Coordinating Committee for Independent Staff Unions and Associations of the United Nations System
CEB	United Nations System Chief Executives Board for Coordination
CEO	Chief Executive Officer
CFO	Chief Financial Officer
EPPO	European and Mediterranean Plant Protection Organization
FAFICS	Federation of Associations of Former International Civil Servants
FAO	Food and Agriculture Organization of the United Nations
FICSA	Federation of International Civil Servants' Associations
IAEA	International Atomic Energy Agency
IAS	International Accounting Standard
ICAO	International Civil Aviation Organization
ICC	International Criminal Court
ICCROM	International Centre for the Study of the Preservation and the Restoration of Cultural Property
ICGEB	International Centre for Genetic Engineering and Biotechnology
ICSC	International Civil Service Commission
IFAD	International Fund for Agricultural Development
IFRS	International Financial Reporting Standards
ILO	International Labour Organization
IMO	International Maritime Organization
IOM	International Organization for Migration
IPSAS	International Public Sector Accounting Standards
IPU	Inter-Parliamentary Union
ISA	International Seabed Authority
ITLOS	International Tribunal for the Law of the Sea
ITU	International Telecommunication Union
OIOS	Office of Internal Oversight Services

STL	Special Tribunal for Lebanon
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
WFP	World Food Programme
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization
WTO	World Tourism Organization

Chapter I
Introduction

1. The United Nations Joint Staff Pension Fund was established in 1949, by a resolution of the General Assembly, to provide retirement, death, disability and related benefits for staff upon cessation of their services with the United Nations, under Regulations that, since then, have been amended at various times.

2. As an independent inter-agency entity, the Fund operates under its own Regulations as approved by the General Assembly and, in accordance with its governance structure, is administered by the United Nations Joint Staff Pension Board, which currently consists of 33 members, representing the 23 member organizations listed in annex I to the present report. One third of the Board members are chosen by the General Assembly and the corresponding governing bodies of the other member organizations, one third by the executive heads of those organizations and one third by the participants in the Fund. The Board reports to the Assembly on the operations of the Fund and on the investment of its assets. When necessary, it recommends amendments to the Regulations and to the Fund's pension adjustment system, which govern, inter alia, the rates of contribution by the participants (currently 7.9 per cent of their pensionable remuneration) and by the organizations (currently 15.8 per cent), eligibility for participation and the benefits to which participants and their dependants may become entitled. Expenses incurred in the administration of the Fund — principally, the cost of its central secretariat in New York and its Office in Geneva, and the expenses of managing its investments — are met by the Fund.

3. The present report is submitted by the Board following its fifty-seventh session, held from 15 to 23 July 2010 at the headquarters of the International Maritime Organization, in London. The members, alternate members and representatives accredited to the session of the Board, the Chair and other officers elected by the Board, and those who actually attended, are listed in annex II.

4. The major items considered by the Board were: (a) actuarial matters, including in particular the results of the thirtieth actuarial valuation of the Fund as at 31 December 2009; (b) the management of the investments of the Fund, including reports by the Representative of the Secretary-General for the Investments of the Fund on the investment strategy, policies, practices and performance for the two-year period ended 31 March 2010; (c) the report of the Working Group on Plan Design; (d) revised budget estimates for the biennium 2010-2011; (e) human resources guiding principles and the medium-term human resources plan; (f) the progress made on the implementation of the objectives of the Third Management Charter of the Fund (2008-2011); (g) a study on the impact of currency fluctuations on Fund pension benefits; (h) contractual arrangements with the consulting actuary; (i) a proposal to allow additional contributions by part-time staff; (j) amendments to suspend the special index under the pension adjustment system and to revise article 35 bis of the Regulations, regarding survivor benefits for former spouses of certain participants; (k) results of the business impact analysis; (l) amendment of the Fund's enterprise-wide risk management policy; and (m) changes in administrative rules to increase the interval between reviews for certain disability awards and to coordinate certain rules with prior regulation changes regarding participation and the restoration of service.

5. The Board examined and took note of the financial statements and schedules for the biennium 2008-2009 and considered the report of the Board of Auditors on the accounts and operations of the Fund (see annex X). It also considered a report of the Audit Committee of the Board.

6. Other items considered by the Board and detailed in the present report were related to: (a) the term of appointment of the Deputy CEO; (b) the amended accountability statement; (c) the proposed job description for the next CEO; (d) the cost-sharing arrangements concerning the Appeals Tribunal; (e) the joint study with ICSC on pensionable remuneration; (f) the size and composition of the Pension Board and the Standing Committee; (g) the adoption of International Public Sector Accounting Standard 25 as the new accounting standard for the Fund; and (h) self-evaluation by the Board.

7. Two items considered by the Board in 2009 and not yet reported on to the General Assembly are the terms of appointment for the CEO and the Deputy CEO and the revised memorandum of understanding between the CEO and the Representative of the Secretary-General for the Investments of the Fund.

8. The membership of the Committee of Actuaries, established under article 9 of the Regulations, is shown in annex VI.

9. The membership of the Investments Committee, established under article 20 of the Regulations, is shown in annex VII.

10. Chapter II provides an overview of the decisions taken by the Board at its fifty-seventh session (and its fifty-sixth session, not yet reported on), and chapter III provides a summary of Fund operations for the biennium ended 31 December 2009. Chapters IV to X address issues on which action is required by the General Assembly, as well as matters about which the Board informs the Assembly. The salient observations, conclusions and recommendations set out in the present report are highlighted in bold print.

11. A draft resolution for the consideration of the General Assembly is contained in annex XX.

Chapter II
Overview of decisions taken by the Board

A. Recommendations and decisions of the Board requiring action by the General Assembly

12. The following recommendations and decisions taken by the Board at its fifty-seventh session require action by the General Assembly:

(a) The Board recommends the approval of an amendment to the Regulations of the Fund that would allow additional contributions to be made by part-time staff. The Assembly considered this item in 2008 and did not approve it, on the basis of the recommendation of the Advisory Committee on Administrative and Budgetary Questions. However, the Board was of the view that the measure should be reconsidered for reasons of fairness and flexibility and to demonstrate sensitivity to gender-related issues, given that the majority of part-time staff is female. The amendment allows up to three years of additional service for part-time staff hired on a full-time basis and subsequently converted to part-time status, provided the required contribution amount is paid to the Fund. The amendment also applies the same constraints as those applied to periods of leave without pay for full-time staff. The relevant amendment to the Regulations of the Fund is contained in annex XV, and the relevant amendment to the Administrative Rules is contained in annex XVI;

(b) The Board recommends the suspension of the special index provision under the Fund pension adjustment system, for all separations as from 1 January 2011. The Board's decision is aimed at addressing the conceptual deficiencies of the provision, as fully detailed in the present report. The relevant amendment is contained in annex XVII;

(c) The Board recommends the approval of funding for the cost-sharing arrangement for the use of the new administration-of-justice system of the United Nations.

B. Information provided to the General Assembly on other action taken by the Board

13. The General Assembly may wish to take note of the following information regarding items considered by the Board at its fifty-seventh session:

(a) The actuarial valuation of the Fund, performed as at 31 December 2009, revealed a deficit of 0.38 per cent of pensionable remuneration, which was the first Fund deficit to be reported in the past seven actuarial valuations;

(b) With regard to article 26 of the Regulations, there is no requirement for deficiency payments by member organizations;

(c) The Board noted that the periodic review of the costs and/or savings relating to modifications to the two-track feature of the pension adjustment system showed consistency with the past assessments and therefore decided that no changes were needed at present; it also requested that the consideration of such costs and/or savings continue to be undertaken in conjunction with the actuarial valuations;

(d) The Board discussed the issue of standards for medical examinations required for employment in a member organization and the requirements pursuant to article 41 of the Fund's Regulations. The Board requested the Secretary/CEO to work with the Fund's medical consultant in considering the possibility of establishing a standard for medical examinations for purposes of participation in the Fund;

(e) The Board approved an amendment to administrative rule H.6 (b) to extend the review period from three to five years for disability awards with respect to which medical evidence indicated a permanent disability with an unfavourable prognosis for recovery. The relevant amendment to the Administrative Rules is contained in annex XVI;

(f) The Board concluded that International Public Sector Accounting Standard 25 would be the new accounting standard for the Fund as from 1 January 2012. The Board agreed that the new CFO of the Fund, once hired, would lead the implementation of the new accounting standards, which would be a top priority for the CFO;

(g) The Board considered a status report on the Emergency Fund and requested that the Fund secretariat conduct a study on enhancing the scope, flexibility and administrative response time of the Emergency Fund;

(h) The Board reviewed a proposed revision to the budget estimate for the biennium 2010-2011, in the amount of $301,600. It decided that no changes would be made in the total appropriation, and the additional resources requested were not approved. The Board decided that the requirements related to IPSAS implementation should be met through the redeployment of resources;

(i) The Board established a working group to review the proposed budget for the biennium 2012-2013. The working group would meet immediately before the Board's 2011 session, so that minimal meeting costs would be incurred. In addition, the Board requested that the proposed budget document be issued to all Board members at least 90 days before its 2011 session and that the budget estimates be aligned as closely as possible with the methodology used by the United Nations;

(j) The Board reviewed the progress report on the goals set out in the Fund's Third Management Charter and noted the significant progress made on their achievements. The Board requested that certain parts of the report be simplified and harmonized with the Fund's main strategic priorities and that the report be submitted at its 2011 session;

(k) The Board noted that the formal bidding exercise that it had requested in 2008 for future contractual arrangements for the consulting actuary was nearly complete and that the results would be presented for its consideration at its 2011 session. The Board approved an extension of the current contract with the consulting actuary to 31 December 2011;

(l) The Board approved a change to the Administrative Rules of the Fund corresponding to changes previously made in the Regulations related to participation and the restoration of service. The relevant amendment to the Administrative Rules is contained in annex XVI;

(m) The Board was presented with the results of the business impact analysis, as well as the new business continuity plan for the Fund secretariat. The Board

welcomed the plan, noting that it now covered 100 per cent of retirees and beneficiaries and that it had been fully tested and implemented;

(n) The Pension Board took note of the human resources guiding principles set out in a document presented to it. Those principles would guide the Fund's management of human resources. The Board requested that, for its next session, metrics be developed to measure and monitor the effectiveness of the Fund's various operational, investment and support processes;

(o) The Board noted the medium-term human resources plan presented to it and recommended that, in future, human resources planning be integrated into the Fund's strategic planning process and any staffing-level requests or structural changes be incorporated into the corresponding budget proposals submitted to the Board;

(p) The CEO presented to the Board a revised enterprise-wide risk management policy. The Board approved the policy, noting that it would enable management to monitor and mitigate risks and also enable the Fund to react quickly to changes in risk profiles. The Board was also presented with an information technology strategy and framework by the Investment Management Division to support the Fund's investment management activities and back office;

(q) The Board was presented with the report of the Audit Committee, which summarized the major findings and conclusions of the Committee. The Board endorsed the report, including all of the recommendations and conclusions contained in it. In addition, as had been requested in 2009, a revised Internal Audit Charter was presented to the Board. The Board reviewed and approved the revised Charter;

(r) The Board of Auditors presented its report on the financial statements of the Fund for the biennium ended 31 December 2009. The Pension Board noted that the Board of Auditors had issued a modified audit opinion on the financial statements with one emphasis of matter, on the management of investments;

(s) The Board endorsed the revised accountability statement presented to it by the CEO and requested that the definition of the critical role of the CFO reflect the dual reporting lines between the CEO and the Representative of the Secretary-General, as well as the responsibility for the overall financial reporting process and the implementation of IPSAS;

(t) The Board requested the Fund secretariat to submit a report for its consideration at its next session regarding its size and composition, its working methods and effectiveness, and draft terms of reference for a possible future working group to further study the matter. The Board's self-evaluation, which had begun at its fifty-seventh session, would be included in the report;

(u) The Board was presented with a comprehensive report on the two-year study completed by the Working Group on Plan Design. The Board engaged in extensive discussions on the conclusions and preferred options set out in the report and agreed that the report would assist it in plan design deliberations over the next 5 to 10 years. The Board agreed that the future studies suggested in the report should be carried out with respect to enhancing the scope and flexibility of the Emergency Fund, early retirement reduction factors and negative cost-of-living adjustments. The Board agreed that, before any other plan changes would be considered for

implementation, two economy measures effective since the 1980s would be restored, as agreed to in principle by the General Assembly. The Board also noted that increasing the normal retirement age to 65 would yield actuarial savings but that such a change should be made in coordination with the human resources policies of member organizations on the mandatory age of separation;

(v) The Board took note of the draft job description for the next CEO presented by the Search Committee and developed in relation to the expiration of the term of the current CEO at the end of 2012. The Board agreed with the proposed programme of work for 2011 and 2012 presented to it in connection with the search for the next CEO;

(w) The Board confirmed its decision to prospectively limit the term of office of the Deputy CEO/Deputy Secretary to two five-year terms. In addition, the Board was informed that the Secretary-General had approved, beginning in 2009, a contract of three years' duration for the Deputy CEO, despite the Board's approval of an extension to five years. Therefore, the Board requested that the CEO meet with the Secretary-General to inform him of the Board's renewed request for a five-year contract. Furthermore, the Board requested that the CEO prepare an informative note regarding the specific status of the Fund with respect to its administrative arrangements with the United Nations, which the CEO should also discuss with the Secretary-General;

(x) The Board recalled that the impact of currency fluctuations on pension benefits and the variations in amounts due as a result of different dates of separation had been studied frequently throughout the history of the Fund's pension adjustment system. The 2010 review on the subject prepared by the secretariat addressed the specific request of the Board that a study be conducted on whether wide fluctuations in local currency track benefits could be mitigated through the use of a 120-month average of exchange rates, instead of the current 36-month average. The Board confirmed that the use of a 120-month average would be the preferred solution to the currency fluctuation problem, but concluded that, in any change to the pension adjustment system, the following should be taken into account: (a) the actuarial implications for the long-term funded position of the Fund; and (b) whether failing to make such a change would result in higher costs for the Fund than making such a change;

(y) The Board considered a proposal to decrease from 10 years to 5 years the marriage period required for staff to be eligible to receive a divorced surviving spouse's benefit under article 35 bis of the Regulations. After deliberating, the Board could not reach a consensus, and the proposed change was not approved;

(z) The Board took note of a report regarding transfer agreements and the decision of the CEO that the existing agreements should be reviewed by the secretariat to identify practical matters that had arisen over the past few years;

(aa) The Board considered the notes of ICSC and the Fund secretariat regarding the upcoming review of pensionable remuneration. The review was scheduled to be completed in time for the 2011 session of the General Assembly. The Board supported the review and added six items for study to those proposed by ICSC. The Board also requested that the defined-benefit plans of additional countries and similar international organizations be included in the comparability

review, together with the Federal Employees Retirement System plan of the United States of America;

(bb) The Board reviewed and took note of the 15 judgements with respect to which the Fund had been the respondent. In the majority of those cases, the Board's decisions had been upheld, indicating that the Regulations and Rules were being properly administered;

(cc) In 2009, the Board had approved an amendment to the Fund's rules of procedure regarding the establishment of five-year terms for the CEO and the Deputy CEO and, upon recommendation of the Board, one reappointment each for a five-year term. In order to ensure continuity in the management of the Fund, the terms of the CEO and the Deputy CEO would be staggered. The relevant amendment to the rules of procedure is contained in annex XVIII;

(dd) In 2009, the Board had taken note of the memorandum of understanding developed and agreed to by the Secretary/CEO and the Representative of the Secretary-General, which would ensure a more coordinated and consultative process with regard to matters of strategic importance to the Fund.

Chapter III

Summary of the operations of the Fund for the biennium ended 31 December 2009

14. During the biennium ended 31 December 2009, the number of participants in the Fund increased from 106,566 to 117,580, or by 10.3 per cent; the number of periodic benefits in award increased from 58,084 to 61,841, or by 6.5 per cent. On 31 December 2009, the breakdown of the periodic benefits in award was as follows: 21,292 retirement benefits, 13,881 early retirement benefits, 6,926 deferred retirement benefits, 10,319 widows' and widowers' benefits, 8,208 children's benefits, 1,175 disability benefits and 40 secondary dependants' benefits. Over the course of the biennium, 13,969 lump-sum withdrawal and other settlements had been paid. A breakdown by member organization of participants and of benefits awarded is shown in annex VIII to the present report.

15. During the same two-year period, the principal of the Fund increased from $30,583,419,830 to $33,114,592,668, or by 8.3 per cent (see annex IX, statement II).

16. The investment income of the Fund during the period amounted to $2,702,008,806, comprising $2,290,348,160 in interest, dividends, real estate and related securities, and $411,660,646 in net profit on sales of investments. After the deduction of investment management costs amounting to $45,471,440, net investment income was $2,656,537,366. A summary of the investments as at 31 December 2009 and a comparison of their cost and their market values are provided in annex IX, schedules 2 and 3.

Chapter IV
Actuarial matters

A. Thirtieth actuarial valuation of the Fund as at 31 December 2009

17. Article 12 (a) of the Regulations of the Fund provides that the Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Fund will be sufficient to meet its liabilities. The practice of the Board has been to carry out a valuation every two years.

18. The consulting actuary submitted to the Board the report on the thirtieth actuarial valuation of the Fund as at 31 December 2009; the previous valuation had been as at 31 December 2007, and its results had been reported to the General Assembly at its sixty-third session, in 2008. The Board also had before it the observations of the Committee of Actuaries, which had examined the valuation report prior to its submission to the Board.

Actuarial valuation bases

19. The valuation had been prepared on the basis of the actuarial assumptions recommended by the Committee of Actuaries and approved by the Board in 2009, and in accordance with the Regulations, Rules and Pension Adjustment System of the Fund in effect as at the valuation date.

20. As in the past 11 valuations, the actuarial value of the assets as at 31 December 2009 was determined using a five-year moving market value averaging method, subject to a limiting corridor of 15 per cent below and above the market value of the assets as at 31 December 2009. On that basis, the actuarial asset value was determined to be $38,154 million, or 101.3 per cent of the market value of the assets as at that date ($37,659.6 million after cash-flow adjustments).

21. The actuarial assumptions included four sets of economic assumptions and four sets of participant growth assumptions that were used in various combinations.

22. Three sets of economic assumptions were unchanged from those used for the 2007 valuation: (a) 3 per cent, 3.5 per cent and 4 per cent real rates of return on investment; (b) a 4 per cent inflation rate; and (c) a 4.5 per cent increase in pensionable remuneration (in addition to static increases). A fourth set of economic assumptions was adopted for the 31 December 2009 actuarial valuation; (d) a 2 per cent real rate of return on investment; (e) a 3 per cent inflation rate; and (f) a 3.5 per cent increase in pensionable remuneration (in addition to static increases).

23. The participant growth assumptions were: (a) zero growth for all years; (b) positive growth of 0.5 per cent per annum for 10 years, followed by zero growth thereafter; (c) positive growth of 1.0 per cent per annum for 10 years, followed by zero growth thereafter; and (d) zero growth for 10 years, followed by negative growth of 0.5 per cent per annum for each of the next 20 years, followed by zero growth thereafter.

24. Those economic and participant growth assumptions are set out in table 1.

Table 1

	Assumption		*(percentage)*	
	I	*II*[a]	*III*	*IV*
A. Economic factors				
Increases in pensionable remuneration (in addition to real increases)	4.5	4.5	4.5	3.5
Nominal rate of interest (investment return)	7.0	7.5	8.0	5.0
Price increases (reflected in increases in pensions to beneficiaries)	4.0	4.0	4.0	3.0
Real rate of interest (investment return after inflation)	3.0	3.5	4.0	2.0
Usual designation	4.5/7/4	4.5/7.5/4	4.5/8/4	3.5/5/3
Cost of the two-track adjustment system (1.9 per cent of pensionable remuneration)	Included	Included	Included	Included
B. Future growth of participant population				
For each of the first 10 years:				
Professional staff	0.0	0.5	1.0	0.0
General Service staff	0.0	0.5	1.0	0.0
For each of the next 20 years (zero growth thereafter):				
Professional staff	0.0	0.0	0.0	(0.5)
General Service staff	0.0	0.0	0.0	(0.5)

[a] Regular valuation basis.

25. The Committee of Actuaries recommended, and the Board agreed in 2009, that the 4.5/7.5/4 set of assumptions (i.e., a 4.5 per cent annual increase in pensionable remuneration in addition to the static scale, a 7.5 per cent nominal interest rate and a 4 per cent annual inflation rate with respect to increases in pensions after award) and the "10-year 0.5 per cent participant growth assumptions" should serve as the basis of the regular valuation for 2009.

26. The specific combinations reflected in table 1 and included in the actuarial valuation as at 31 December 2009 were as follows:

(a) A.II with B.II (4.5/7.5/4 and 10-year 0.5 per cent growth in participants);

(b) A.I with B.II (4.5/7/4 and 10-year 0.5 per cent growth in participants);

(c) A.III with B.II (4.5/8/4 and 10-year 0.5 per cent growth in participants);

(d) A.IV with B.II (3.5/5/3 and 10-year 0.5 per cent growth in participants);

(e) A.II with B.I (4.5/7.5/4 and zero growth in participants);

(f) A.II with B.III (4.5/7.5/4 and 10-year 1.0 per cent growth in participants);

(g) A.II with B.IV (4.5/7.5/4 and 10-year zero and 20-year (0.5) per cent growth in participants).

27. The demographic assumptions were the same as those used for the 31 December 2007 actuarial valuation, as approved by the Board in 2009, acting on the recommendation of the Committee of Actuaries.

28. Also upon the recommendation of the Committee, the Board agreed that the provision for administration costs to be included in the current valuation should be based on one half of the approved budget for the biennium 2010-2011, divided by the total pensionable remuneration as at 31 December 2009. Under that methodology, the provision for administration costs included in the 31 December 2009 actuarial valuation was 0.39 per cent of pensionable remuneration, an increase from the figure of 0.37 per cent of pensionable remuneration included in the 31 December 2007 actuarial valuation.

Analysis of the valuation results

29. Table 2 provides the results of the thirtieth actuarial valuation and compares them with the results of the regular valuation as at 31 December 2007.

Table 2

		Contribution rate required (as percentage of pensionable remuneration) to attain actuarial balance of Fund			
Valuation date	*Valuation basis*	*Required rate*	*Current rate*	*Difference (surplus)/deficit*	*In dollar terms (millions)*
31 December 2009	4.5/7.5/4 with 10-year 0.5 per cent participant growth (regular valuation)	24.08	23.70	0.38	(1 222.3)
	4.5/7.0/4 with 10-year 0.5 per cent participant growth	26.70	23.70	3.00	(11 494.4)
	4.5/8/4 with 10-year 0.5 per cent participant growth	21.56	23.70	(2.14)	5 899.7
	3.5/5/3 with 10-year 0.5 per cent participant growth	34.15	23.70	10.45	(56 205.05)
	4.5/7.5/4 with zero participant growth	24.21	23.70	0.51	(1 553.3)
	4.5/7.5/4 with 10-year 1.0 per cent participant growth	23.96	23.70	0.26	(874.1)
	4.5/7.5/4 with 10-year zero and then 20-year (0.5) per cent participant growth	24.43	23.70	0.73	(2 099.9)
31 December 2007	4.5/7.5/4 with 10-year 0.5 per cent participant growth (regular valuation)	23.21	23.70	(0.49)	1 322.9

30. Therefore, the regular valuation as at 31 December 2009 showed that the required contribution rate as at 31 December 2009 was 24.08 per cent, compared with the current contribution rate of 23.70 per cent, resulting in an actuarial deficit of 0.38 per cent of pensionable remuneration. This represented an increase of 0.87 per cent in the required contribution rate from the rate disclosed as at 31 December 2007 (i.e., an increase from 23.21 per cent to 24.08 per cent), when the valuation had revealed a surplus of 0.49 per cent. As can be seen in table 2, under real-rate-of-return

assumptions of 2 per cent, 3 per cent and 4 per cent, with 10-year 0.5 per cent participant growth, the results would be deficits of 10.45 and 3.00 and a surplus of 2.14 per cent of pensionable remuneration, respectively, demonstrating the major effect of the real-rate-of-return assumption on the valuation results.

Current value of accrued benefits

31. The actuarial valuation contained another indicator of the funded position of the Fund: a comparison of current Fund assets with the value of the accrued benefits as at the valuation date (i.e., the benefits for retired participants and beneficiaries, and the benefits considered to have been earned by all current participants if their services were terminated on that date).

32. With respect to its liabilities on a plan-termination basis, the Fund was in a strongly funded position, as it had been for the past 10 valuations, if future adjustments of pensions were not taken into account. The funded ratios on that basis, which varied according to the rate of interest assumed, ranged from 112 to 145 per cent, with 140 per cent applicable for the regular valuation. This meant that the Fund would have considerably more assets than needed to pay the benefits if no adjustments were made to pensions for changes in the cost of living. The funded position decreased considerably when account was taken of the current system of pension adjustments, including the cost of the two-track system (1.9 per cent of pensionable remuneration); the current valuation indicated funded ratios ranging from 80 to 96 per cent, with 91 per cent applicable for the regular valuation. As shown in table 3, the funded ratios have improved since 1988, both assuming and without assuming future adjustments to pensions for inflation.

Table 3
Funded ratios, 1988-2009

	If future pension payments are made (percentage)	
Valuation as at 31 December	*without pension adjustments*	*with pension adjustments*
1988	123	70
1990	131	77
1993	136	81
1995	132	81
1997	141	88
1999	180	113
2001	161	106
2003	145	95
2005	140	92
2007	147	95
2009	140	91

Results of the valuation in dollar terms and other disclosure statements

33. In its resolutions 47/203 and 48/225 the General Assembly had requested the Board to consider the form in which it presented the valuation results, taking into account, inter alia, the observations made by the Board of Auditors. The auditors

had requested the Board to include in its reports to the Assembly disclosures and opinions as regards the valuation results, namely, presentations of: (a) the valuation results in dollar terms; (b) a statement of sufficiency under article 26 of the Regulations of the Fund; and (c) a statement by the Committee of Actuaries and the consulting actuary on the actuarial position of the Fund, to which the Board of Auditors could refer in its observations on the accounts of the Fund.

34. Accordingly, table 3 summarizes the valuation results as at 31 December 2009, both as a percentage of pensionable remuneration and in dollar terms, under the seven combinations of economic and participant growth assumptions.

35. Table 4 provides the projected liabilities and assets of the Fund in dollar terms, as reflected in the regular valuation results as at 31 December 2009 and 31 December 2007, respectively.

Table 4

(Millions of United States dollars)

	31 December 2009	*31 December 2007*
Liabilities		
Present value of benefits		
Payable to or on behalf of retired and deceased participants	24 395.6	21 895.1
Expected to become payable on behalf of active and inactive participants, including future new entrants	89 614.7	75 374.7
Total liabilities	**114 010.3**	**97 269.8**
Assets		
Actuarial asset value	38 154.0	35 620.4
Present value of future contributions	74 634.0	62 972.3
Total assets	**112 788.0**	**98 592.7**
Surplus (deficit)	**(1 222.3)**	**1 322.9**

36. As they had in the past, the consulting actuary and the Committee of Actuaries stressed that care must be taken when considering the dollar amounts of the valuation results. The liabilities shown in table 4 include those for individuals who have yet to join the Fund; similarly, the assets include the contributions for future new participants. The surplus or deficit indicates only the future effect of continuing the current contribution rate under various actuarial assumptions as to future economic and demographic developments. The valuation results were highly dependent upon the actuarial assumptions used. For example, a deficit of 3 per cent of pensionable remuneration was revealed on the 4.5/7/4 valuation basis, that is, a real rate of return of 3 per cent. A surplus of 2.14 per cent of pensionable remuneration resulted from the 4.5/8/4 valuation basis, that is, a real rate of return of 4 per cent. A deficit of 10.45 per cent of pensionable remuneration resulted from the 3.5/5/3 valuation basis, that is, a real rate of return of 2 per cent. Both the consulting actuary and the Committee of Actuaries pointed out that the actuarial surplus, when expressed in dollar terms, should be considered only in relation to the

magnitude of the liabilities, not in absolute terms. The surplus of $1,322.9 million under the regular valuation as at 31 December 2007 represented 1.4 per cent of the projected liabilities of the Fund. The deficit of $1,222.3 million under the current regular valuation represents 1.1 per cent of the Fund's projected liabilities.

Hypothetical projection models

37. Hypothetical models of the estimated progress of the Fund over the next 50 years had also been prepared on the basis of the economic assumptions in the regular valuation, using the 10-year 0.5 per cent participant growth assumptions. The results were presented in both nominal and inflation-adjusted terms. The models showed that the Fund's assets at the end of the 50-year period would still be increasing, in both nominal and inflation-adjusted dollar terms. Additional models, in which the assumed real rate of return on investment ranged from 2 per cent to 5 per cent, had also been prepared. The models showed that even if the Fund were to earn less than the assumed 3.5 per cent real rate of return, its assets would continue to grow in real terms for many years.

View of the Committee of Actuaries

38. In its report to the Board, the Committee of Actuaries noted that although the current valuation revealed a deficit of 0.38 per cent of pensionable remuneration, the overall results indicated that the Fund continued to be adequately funded and could be expected to meet its short- and long-term pension payment commitments. However, the Committee noted with concern that the Fund's investments showed considerable volatility and that the investment return objective had not been met in recent years. In the light of the results of the actuarial valuation, the Committee once again emphasized the need for the Fund investments, in the long term, to: (i) meet the long-term investment objective of a real rate of return of 3.5 per cent; and (ii) achieve such a return with no undue risk if possible, in order to avoid fluctuations in the results of future valuations. The Committee noted that the fourth set of economic assumptions added to the current valuation results — a real rate of return on investment of 2.0 per cent and inflation of 3.0 per cent per annum — clearly indicated the strong linkage between future investment returns and the results of future actuarial valuations.

39. The Committee commented that this valuation was the first in many years to reveal a contribution rate deficiency. The Committee noted that the six previous valuations, as at 31 December 1997, 1999, 2001, 2003, 2005 and 2007, had disclosed surpluses of 0.36, 4.25, 2.92, 1.14, 1.29 and 0.49 per cent of pensionable remuneration, respectively.

40. The Committee noted that the change from a surplus to a deficit was primarily the result of losses attributable to investment experience as reflected in the actuarial value of assets and — to a lesser degree, and as anticipated — to the effect of updating the pension commutation factors to include the effect of the 2007 United Nations mortality tables. Those losses were offset in part by gains attributable to cost-of-living adjustments that were lower than expected.

41. The Committee concluded that the positive elements that had contributed to the improved financial position of the Fund over the past several valuations would not necessarily continue to the same extent in the future, exposing the Fund to the risk of higher required rates.

42. The Committee recalled its previous recommendation that it would be prudent to maintain an actuarial surplus of approximately 1 to 2 per cent of pensionable remuneration as a minimum safety margin to buffer the impact of economic volatility on the Fund's long-term solvency, as well as to anticipate further maturing of the Fund. In the light of the current deficit, the Committee decided to extend the buffer to cover situations in which there was a deficit, before taking action.

43. The Committee reviewed the 140 per cent funded status of the Fund and noted that the cost of the cost-of-living increase adjustments, assumed to apply annually to retiree benefits, had an impact of more than 50 per cent on the funded status of the plan (given the base scenario). The Committee noted that it would continue to closely monitor the funded status, in particular the impact of the cost-of-living adjustments, and that the Fund would need to experience deficits for a number of years before the Committee would recommend any action.

44. Reviewing the long-term year-by-year projections of cash flow completed by the consulting actuary, the Committee did not foresee liquidity constraints at present, although the investment income would increasingly be used to cover benefit payments and expenses in future. However, the Committee would continue to monitor this closely, taking into account both expected contributions and the continued expectation of a 3.5 per cent real rate of return on Fund assets.

Statements on the valuation results

45. The statement of actuarial sufficiency prepared by the consulting actuary and reviewed by the Committee of Actuaries is reproduced in annex IV to the present report. The statement indicates that

> "the actuarial value of assets exceeds the actuarial value of all accrued benefit entitlements under the Fund, based on the Regulations of the Fund in effect on the valuation date. Accordingly, there is no requirement, as at 31 December 2009, for deficiency payments under article 26 of the Regulations of the Fund. The market value of assets as at 31 December 2009 is $37,659.6 million. Therefore, the market value of assets also exceeds the actuarial value of all accrued benefit entitlements as at the valuation date".

46. The statement of the actuarial position of the Fund, adopted by the Committee of Actuaries, is reproduced in annex V. In the statement, the Committee of Actuaries indicated that it had

> "reviewed the results of the actuarial valuation as at 31 December 2009, which had been carried out by the consulting actuary. Based on the results of the regular valuation, and after the consideration of further relevant indicators and calculations, the Committee of Actuaries and the consulting actuary were of the opinion that the present contribution rate of 23.7 per cent of pensionable remuneration was sufficient to meet the benefit requirements under the plan".

47. The Committee of Actuaries also informed the Board that it would continue to review the evolving experience of the Fund. It would submit recommendations to the Board in 2011 on the assumptions to be used in the actuarial valuation of the Fund to be performed as at 31 December 2011.

Discussion in the Board

48. Clarifications were sought from the consulting actuary and from the Rapporteur of the Committee of Actuaries on various aspects of the actuarial valuation results.

49. Overall, the Board stressed the need for caution and prudence regarding any changes to the Regulations and Rules of the Fund, particularly in the light of the deficit revealed by the current actuarial valuation.

Conclusion

50. **The Board took note of the actuarial condition of the Fund, as reflected in the valuation as at 31 December 2009.**

B. Membership of the Committee of Actuaries

51. The Board noted that the one-year terms of the two ad hoc members of the Committee of Actuaries, K. Heubeck and C. L. Nathal, would expire on 31 December 2010. They had both indicated their willingness to accept reappointment. The current membership of the Committee is set out in annex VI.

52. In accordance with the arrangements approved by the Board, the Secretary/CEO had invited the staff pension committees to offer comments and/or to submit the names of suitable candidates willing to serve on the Committee.

53. **The Board expressed its deep appreciation to the members of the Committee of Actuaries and recommended to the Secretary-General that, in accordance with article 9 (a) of the Regulations of the Fund, Mr. Heubeck and Mr. Nathal be reappointed for one-year terms from 1 January 2011 to 31 December 2011.**

C. Monitoring of the actuarial costs of the two-track feature of the pension adjustment system

54. It was recalled that in 1991 and 1994, the General Assembly, acting on the recommendation of the Board, had approved three changes to the pension adjustment system, which had entered into effect on 1 April 1992 and 1 July 1995, respectively. Those changes were: (a) the 1 April 1992 modification, which provided greater compensation for cost-of-living differences in deriving the initial local-currency pension for participants in the Professional and higher categories who had submitted proof of residence in a high-cost country; (b) the application of the 1 April 1992 modification to the General Service and related categories as at 1 July 1995; and (c) the reduction of the "120 per cent cap" provision to 110 per cent, also with effect from 1 July 1995. In 2004, on the recommendation of the Board, the General Assembly approved a new provision under the two-track feature of the adjustment system, which provided for an adjustable minimum guarantee of 80 per cent of the United States dollar track amount. The Board and the Assembly requested that the costs/savings related to those measures be reviewed in conjunction with the actuarial valuations of the Fund.

1 April 1992 modification

55. The 1 April 1992 modification had affected a total of 858 retirement or early retirement benefits paid during the period from 1 April 1992 to 31 December 2009. The beneficiaries were participants in the Professional and higher categories who had retired during that period and who had provided proof of residence in countries in which the criteria for the application of cost-of-living differential factors had been met. A summary of the benefits paid in the 16 countries concerned, together with the amounts that would have been paid under the previous arrangements, was provided to the Board.

56. On the basis of those data, the tenth and latest assessment of the emerging costs of the April 1992 modification by the consulting actuary amounted to 0.13 per cent of pensionable remuneration. This assessment was based on the same methodology as that used from 1994 to 2007, which takes into account the actual additional payments over the period reviewed, as well as changes in the geographic distribution of the recipients of benefits and the results of the actuarial valuation as at 31 December 2009. The Board took note of table 5, which indicates the evolution of the costs, by assessment period, of the 1992 modification to the pension adjustment system, as applicable to the Professional and higher categories.

Table 5
Costs of the 1992 modification to the pension adjustment system as applicable to the Professional and higher categories

Period assessed	*Cost as a percentage of pensionable remuneration*	*Number of benefits applicable*	*Increase in number of benefits affected over the previous assessment*
Initial estimated cost made in 1991	0.30	—	—
1 April 1992-31 March 1994	0.26	143	—
1 April 1992-31 March 1996	0.33	390	247
1 April 1992-31 March 1998	0.32	532	162
1 April 1992-31 March 2000	0.26	604	52
1 April 1992-31 December 2001	0.24	614	10
1 April 1992-31 December 2003	0.14	627	13
1 April 1992-31 December 2005	0.12	692	65
1 April 1992-31 December 2007	0.11	755	63
1 April 1992-31 December 2009	0.13	858	103

Extension of the 1 April 1992 modification to participants in the General Service and related categories separating on or after 1 July 1995

57. During the period from 1 July 1995 to 31 December 2009, a total of 41 retirement benefits processed for General Service category participants had involved proof of residence in a country in which the cost-of-living differential factors applied under the revised Washington formula.

58. Owing to the consistently small number of benefits actually adjusted under this measure, it was not possible to make a meaningful assessment of the emerging costs of the modification to the pension adjustment system. It was noted that the actual

experience was in line with the comments made by the Committee of Actuaries when the measure had been initially reviewed and approved.

Reduction of the 120 per cent cap provision to 110 per cent

59. As at 31 December 2009, there had been 51,668 main benefits in award (excluding children's benefits and deferred retirement benefits still in the deferral period), of which 33,823, or 65.5 per cent, related to retirees and beneficiaries with only a dollar pension entitlement and 17,845, or 34.5 per cent, related to retirees and beneficiaries who were on the two-track pension adjustment system (i.e., they had two pension records: a dollar track amount and a local currency track amount); the number of cases involving the application of the cap provision was 168, out of a total of 17,845 (0.9 per cent), compared with 154, out of a total of 15,444 (1.0 per cent), as at December 2007. Therefore, the number of cases to which the cap provision applied (either 110 per cent for those who separated from service on or after 1 July 1995 or 120 per cent for those who separated earlier) had increased in absolute terms but had decreased slightly in percentage terms since 2007.

60. The breakdown for retirees and beneficiaries separating from service since the date of the introduction of the 110 per cent cap provision — i.e., during the period from 1 July 1995 to 31 December 2009 — was as follows: of the 24,671 main benefits established, 16,059 or 65.1 per cent involved retirees and beneficiaries who had chosen to keep a dollar pension entitlement and 8,612, or 34.9 per cent, related to retirees and beneficiaries who had opted for the two-track feature of the adjustment system. With respect to two-track cases, during the fourth quarter of 2009, 39 retirees and beneficiaries were being paid the maximum 110 percent of the local track amount for that quarter (i.e., the dollar track equivalent was higher than the local currency amount and had reached the cap amount) and 5 were being paid the equivalent of the United States dollar track amount (i.e., the dollar track equivalent was higher than the local currency amount but less than the 110 per cent capped amount). The remaining two-track cases were being paid the local track amount (i.e., the local-currency track amount was higher than the dollar track amount).

61. The Board noted that as part of the current actuarial valuation exercise, the consulting actuary had estimated the emerging long-term costs of the two-track system as a whole, based on data since 1990, to be 2.11 per cent of pensionable remuneration; the actuarial assumption used in the latest valuation had been 1.90 per cent of pensionable remuneration. In order to make an assessment of the savings arising from the new 110 per cent cap provision of the two-track system, the consulting actuary had compared (a) the emerging long-term costs of the two-track system, assuming the reduction in the cap from 120 per cent to 110 per cent as from 1 July 1995 did not apply, based on an evaluation and projection of the data since 1990, which was 2.28 per cent of pensionable remuneration, with (b) the emerging long-term costs of the two-track system, including the reduction, also based on the data since 1990, which was 2.11 per cent of pensionable remuneration.

62. On that basis, and as a very preliminary estimate, the Board noted that the emerging long-term savings resulting from the introduction of the 110 per cent cap provision were estimated to be approximately 0.16 per cent of pensionable remuneration; when the change in the cap had been proposed, the actuarial savings had been estimated at 0.20 per cent of pensionable remuneration. Since the current

assessment of the emerging savings was based on limited data, the Board took note of the suggestion of the Committee of Actuaries that the analysis of additional years of experience would be required before any definitive estimate of the savings realized could be made.

Adjustable minimum guarantee at 80 per cent of the United States dollar track amount

63. The Board noted the information provided with respect to the introduction of the adjustable minimum guarantee at 80 per cent of the United States dollar track amount, which had taken effect on 1 April 2005. The number of actual cases affected during the period under review had been significantly fewer than the 420 assumed for the costing exercise conducted in 2004. It was recognized, however, that the number of cases in future periods, and the resulting increases in pension amounts, would vary depending on the specific circumstances of the entire period under consideration. As part of its first review of the new measure, the Fund had examined the actual implications of the measure since its introduction on 1 April 2005 and had found that, for the nine-month period that year, the average number of cases eligible for the adjustable minimum guarantee had been 196. During 2006, the average number of cases eligible for the adjustable minimum guarantee had been 244; during 2007, 128; during 2008, 147; and during 2009, 138.

64. The Board noted that, given the minimal actuarial implications and the very limited amount of data available, the Committee of Actuaries had agreed that any further action or adjustment in respect of the new measure did not appear to be warranted at present. The Board agreed with the Committee's suggestion that the implications of the new provision should continue to be monitored and assessed in conjunction with future actuarial valuations.

Conclusions of the Board

65. **The Board took note of the assessments provided with regard to the actual emerging costs/savings of the modifications of the two-track feature of the pension adjustment system. It noted that no changes needed to be made at present, as regards either (a) the rate of contribution or (b) the current parameters of the revised Washington formula and of the cap provision. It agreed, however, that the consideration of the costs and/or savings resulting from the modifications to the two-track system since 1992 should continue to be monitored at the time of completion of actuarial valuations and that any definitive trends should continue to be identified and reported to the Board. Moreover, the Board requested that the secretariat monitor the emerging costs/savings resulting from the modifications to the two-track feature of the pension adjustment system and report to the Board at its fifty-ninth session, in 2012.**

Chapter V
Investments of the Fund

A. Management of the investments

66. The Representative of the Secretary-General for the Investments of the Fund introduced the report on the management of Fund investments, summarizing the economic and financial environment during the period from 1 April 2009 to 31 March 2010, as well as the investment decisions taken and the performance of the Fund. The document also included various historical statistical data.

67. The Representative of the Secretary-General described how the objectives and the investment strategy had been applied against the background of the prevailing economic, political and financial conditions. The report showed the returns on investment achieved and reviewed the financial accounts and the administration of the investments.

68. The Representative pointed out that since the fifty-sixth session of the Board, the markets had recovered, although the process of recovery had been uneven. During the course of the market recovery, the market value of the Fund had increased as a result of prudent stock selection, global diversification and tactical rebalancing. The Investment Management Division had realized the benefits of the positive market trends and had concurrently worked to strengthen the investment infrastructure and to reduce transactions costs. During this volatile period in the equities markets, the Division had placed emphasis on building and strengthening the infrastructure of the Fund, safeguarding the principal and improving the investment decision-making process.

69. The recovery in global equities had arisen from the March 2009 cycle lows. Markets had regained their bearings from the deepest and most synchronized economic contraction since the Great Depression. The appetite for risk had improved, as evidenced by the outperformance of the weakest elements of the banking sector, some real estate companies, low-quality equities and even riskier bonds. During the second half of 2009, the Investment Management Division had completed a strategic rebalancing of the portfolio by purchasing more than $1.6 billion worth of equities. That had helped to raise the equity weighting of the portfolio from 51.9 per cent as at 31 March 2009 to 61.6 per cent as at 31 July 2009.

70. Over the fiscal year ended 31 March 2010, the total market value of the Fund had increased by 32.2 per cent. This represented a higher return than the Fund had achieved in any previous year. Notably, equities in emerging markets had rallied strongly, rising more than 80 per cent. The Fund had benefited from an overweight position in global emerging markets. The Fund had slightly underperformed the 60/31 benchmark by 1.09 per cent, owing to the Fund's risk approach to portfolio construction, partially offsetting the outperformance of 1.47 per cent in the previous fiscal year, when the Fund had declined by 28.3 per cent during the financial crisis. In the two-year period ended 31 March 2010, the Fund had had an annualized outperformance of 0.47 per cent. The Fund had remained deliberately underweight in financials during the financial crisis. The relative underperformance in 2009 had been a reflection of the rally in the banking institutions in the lowest tier, which were not represented in the portfolio. In accordance with its risk-averse investment strategy, the Fund had not invested in certain securities that had barely survived

"near-death experiences" during the recovery rally. While the banking industry could not be addressed monolithically, the banks of the United States and Europe did not appear to have fully absorbed the losses resulting from the credit crisis.

71. The Fund had outperformed the 60/31 benchmark in the past 3, 5, 7 and 10 years. Over the long term, through active management, the Fund had outperformed the policy benchmark through effective stock selection and the periodic rebalancing of assets. The Fund had outperformed its peer group in the Wilshire Trust Universe Comparison Service universe and had been in the top quartile of all public funds in that universe with assets of more than $1 billion as at 31 March 2010. The Investment Management Division had continued to focus on balancing risk and reward expectations by apportioning the Fund's assets in accordance with allocation goals appropriate for a long-term investment horizon.

72. The Representative of the Secretary-General explained the evolution in the level of investment income received by the Fund. The Fund's net income, including interest earned, dividends, profit/loss on sale of investments, and prior-year adjustment, had been $0.556 billion in calendar year 2009, as compared with $3.99 billion in calendar year 2007 and $2.146 billion in calendar year 2008.

73. The Representative also provided a detailed explanation regarding the realized net loss of $467 million recorded during calendar year 2009, noting that the more significant figure had been the unrealized gain of $6.2 billion. In a long-term portfolio with relatively low turnover, such as the Fund, the unrealized amounts dwarfed the realized gains and losses. This had been demonstrated clearly with respect to the large unrealized gains of $6.2 billion from portfolio holdings in 2009. The realized losses had been generated mainly in conjunction with the disposal of poorly performing instruments. The Representative was of the opinion that those transactions had been prudent, as they had enabled the Fund to improve the overall quality of the portfolio. The realized net loss, while a significant amount in absolute terms, had been small relative to the size of the Fund, the trading volume and the unrealized gains in the portfolio. There was no guarantee of positive returns in any investment activity and reasonable risk-taking was essential if the Fund was to meet its long-term earnings target. The Representative highlighted the fact that in calendar year 2009, the Fund had grown by 21.81 per cent and there had been unrealized gains amounting to $6.2 billion as well as realized interest and dividend income of $1.0 billion.

74. The Representative of the Secretary-General informed the Board of the Fund's first-ever investment in alternative assets, nearly two years after a consultancy report by Mercer Investment Consulting and a presentation by the Investment Management Division on such investments had been given to the Board at its fifty-fifth session, in 2008. A contract had been signed on 30 June 2010 with IFC African, Latin American and Caribbean Fund, L.P. The IFC Fund was a private equity fund with up to $950 million in commitments raised by IFC Asset Management Company, a wholly owned subsidiary of IFC, to make equity investments in growth companies located in developing countries in Africa and in Latin America and the Caribbean. IFC, established in 1956 as a member of the World Bank Group, had been mandated to help finance the growth of productive private enterprise in its developing member countries and had been one of the first active investors in emerging-markets funds. IFC had had an excellent credit history as well as a successful track record in fund management performance. The Pension Fund would

benefit from the IFC organizational infrastructure of 32 local offices, access to markets and knowledge of those regions. The Pension Fund's capital commitment amounted to $150 million, which accounted for approximately 0.4 per cent of Fund assets.

75. The Chair of the Investments Committee stated that the Committee fully supported the investment actions taken by the Representative of the Secretary-General and the Investment Management Division during the very turbulent times in the financial markets. In particular, the accumulation of equity since February 2009 had been courageous and had contributed to the Fund's historically high performance during the fiscal year ended in March 2010. The Chair expressed cautious optimism about the global economy. The recovery of the global economy would be slow to be felt in major developed economies, and, as a result, the fiscal stimulus and accommodative monetary policy would continue. The Chair of the Committee was of the view that a "double-dip" scenario was possible, but not likely.

76. The governing bodies expressed overall satisfaction with the efforts made by the Division and the Committee. The rebound of the Fund's market value in 2009 had been impressive. However, the governing bodies indicated that there was room for improvement, including through in-depth analysis of transactions, lessons learned, notes of caution about exposure to additional risks, and post-sales analysis. The improvement in cash management had been important.

77. The executive heads were pleased with the positive developments related to the Fund. They noted that the relevant papers should be submitted well in advance of meetings. They highlighted the fact that there had been confusion regarding the reporting dates, namely, those corresponding to the calendar year, the fiscal year and the period ending in May, and suggested that a standard reporting period would be helpful. Not only should results be measured against the 60/31 benchmark; they should also be considered from various angles, including peer-group comparison and actuarial targets. In addition, the executive heads indicated that a detailed analysis of the Division's costs of $24.7 million should be provided.

78. The participants' group expressed concern about the realized net loss of $467 million related to securities transactions during calendar year 2009. They highlighted the need for transparency and for more detailed and timely disclosure. The Representative of the Secretary-General concurred that more detailed statements, prepared in accordance with IPSAS using the new operations and portfolio management system, under procurement, would deliver more clarity and timeliness with respect to the accounting elements. He presented a set of charts to demonstrate the fact that unrealized gains and losses in a long-term portfolio were much more important factors in generating portfolio returns. Short-term realized losses represented appropriate pruning of the portfolio to facilitate the redeployment of assets into more promising investments.

79. The following tables set forth the accounting elements for calendar year 2009 (table 6) and for the biennium 2008-2009 (table 7).

Table 6
Investment performance for calendar year 2009
(United States dollars)

Market value 2008	31 083 646 185.00
Market value 2009	37 306 429 925.00
Unrealized gain	6 222 783 740.00
Realized income	1 023 856 990.00
Net realized loss[a]	(467 533 851.67)
Net realized income	556 323 138.33
Total income	6 779 106 878.33
Performance	21.81 per cent

[a] Losses were recognized when underperforming investment instruments were pruned from the portfolio in keeping with prudent risk management. Equivalent to 1.25 per cent of closing market value as at 31 December 2009; during that year, overall performance improved 21.81 per cent.

Table 7
Investment performance for the biennium 2008-2009
(United States dollars)

	2009	*2008*	*2008-2009*
Realized losses[a]	(1 585 026 248.72)	(1 155 537 525.40)	(2 740 563 774.12)
Realized gains	1 117 492 397.05	2 034 732 023.40	3 152 224 420.45
Net realized gains/losses[b]	(467 533 851.67)	879 194 498.00	411 660 646.33
Income from dividend and interest	1 023 856 990.00	1 266 664 851.00	2 290 521 841.00
Net income including realized gains/losses	556 323 138.33	2 145 859 349.00	2 702 182 487.33
Total trading volume	13 328 393 148.10	11 320 584 264.68	24 648 977 412.78
Ratio realized gains and losses/ trading volume[c]	-3.51 per cent	7.77 per cent	1.67 per cent

[a] Total realized losses of $2.7 billion reported by the Board of Auditors for the biennium 2008-2009. This indicator is monitored in order to measure trading activity. Please note that in the same period, the realized gains of $3.2 billion more than counterbalanced the realized losses, resulting in a net gain of $0.4 billion.

[b] Net realized gains of $0.4 billion for the biennium 2008-2009.

[c] This ratio depicts the percentage of gains/losses versus the volume traded by the Investment Management Division to rebalance the portfolio in order to meet the tactical asset allocations, as recommended by the Investments Committee. This involved pruning the portfolio to remove underperforming instruments and applying the proceeds to better-performing instruments so as to position the Fund to take advantage of the market turnaround.

Figure I
2008 and 2009 calendar year investment performance
(Billions of United States dollars)

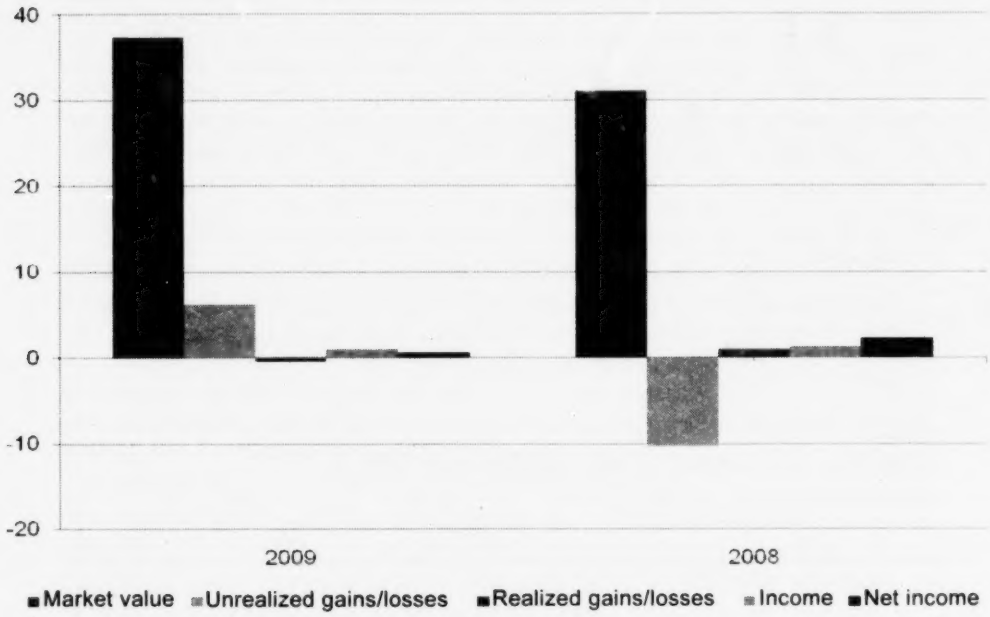
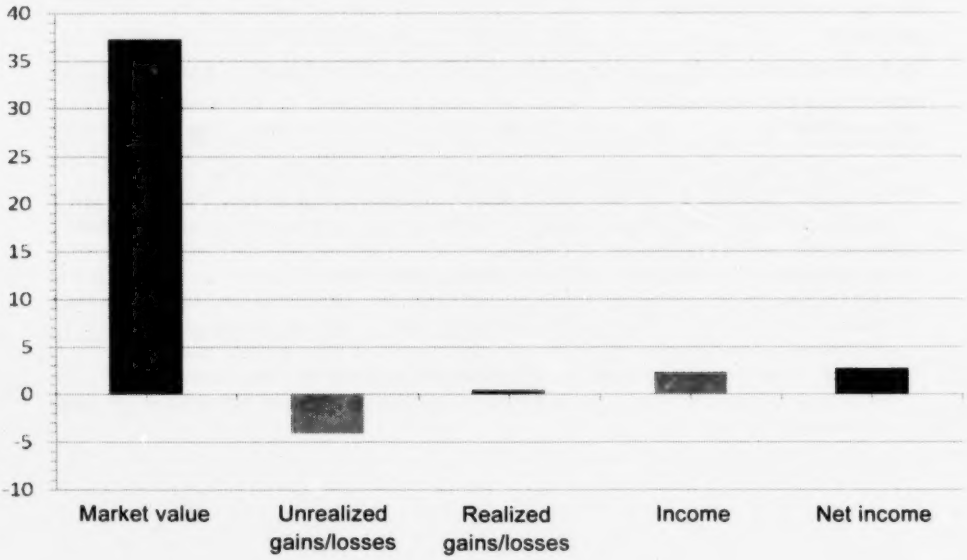


Figure II
Biennium 2008-2009 investment performance
(Billions of United States dollars)



80. The governing bodies commented that the charts were helpful in clarifying the details and that the realized loss of $467 million for calendar year 2009 was really a "net realized loss". This figure should be differentiated from the realized-gross-loss figure of $1.6 billion before netting out the realized gain of $1.1 billion, so as to prevent any misconception. They also asked that in future, any relevant disclosures be made ahead of the presentation.

81. The Director of the Investment Management Division stated that the ongoing upgrades in infrastructure would improve transparency. The trade order management system and the SWIFT systems would permit the automation of actual trades and settlements. The trade order management system would be capable of providing detailed analysis of execution costs. In addition, the request for proposal for multiple custodians and an independent master record-keeper were at an advanced stage, with due-diligence visits having been recently completed. The reporting capability would permit access to daily reconciliation under the new structure, instead of monthly reconciliation between the master record-keeper and the Division record. With respect to lessons learned, the Division had enhanced the internal research capability by implementing a new research platform called the Investment Rationale. The Division process required a review of the Investment Rationale for every investment at least every six months, and earlier if unrealized losses exceeded the threshold of 25 per cent.

82. In response to a question regarding the 60/31 benchmark, the Representative of the Secretary-General stated that the benchmark was intended to compare the Fund's performance with that of the markets, but it that was not necessarily matched with the actuarial assumptions. The Fund's performance needed to be monitored in comparison with both market rates of return and actuarial assumptions.

83. The governing bodies expressed appreciation for the modest growth in the investments in global emerging markets. The four investment criteria of safety, profitability, liquidity and convertibility should not be compromised. However, investment opportunities in emerging markets, particularly in Africa, should be reviewed continuously.

84. The members of the Investments Committee pointed out that the Committee was fully aware of the opportunities in emerging markets. The Fund had invested 15 per cent of its assets in such markets, compared with a benchmark weight of approximately 10 per cent. The Fund would benefit from its investment in the IFC Fund, which expanded its exposure in emerging markets, including Africa and Latin America and the Caribbean. The Fund would seek further opportunities to build upon its profitable holdings in emerging markets. At the same time, the Committee remained aware of the risks associated with investing in emerging markets and of the need to be cautious in its decision-making. In view of the importance of the markets in Brazil, the Russian Federation, India and China, a meeting of the Committee had been held in Beijing in May 2010, at which the Committee had benefited from the opportunity to consider emerging-markets issues in depth.

85. Members of the Board pointed out the need for improvement in the area of cash management. A member indicated that the Fund must ensure that the assets were held in the name of the United Nations in order to prevent the loss of control over the Fund and maintain its safety. The Director of the Investment Management Division commented that cash management was among the areas on which internal audit had focused its attention. OIOS had commented favourably on the

implementation of SWIFT, the most robust payment system. Not only was the system cost-effective; it also provided for safety, ensuring dual authorizations and clear audit trails.

86. As regards the reporting periods, the financial statements had been submitted as at December 2009; however, the Representative of the Secretary-General stated that end-of-March performance figures were routinely used at Board meetings in an effort to report the latest numbers to the Board. The Representative emphasized that he was amenable to reporting on any time period preferred by the Board.

87. The executive heads inquired about the status of the custodial arrangements. The Director of the Investment Management Division responded that the request for proposal for multiple custodians and an independent master record-keeper had been issued in March 2009. With the assistance of the Procurement Division, the Investment Management Division had already completed the relevant due-diligence visits.

88. The governing bodies asked for clarification regarding the status of indexation. The Representative of the Secretary-General highlighted the importance of active management (in particular, the need to avoid poorly performing financial sector investments), noting that the idea of blanket indexation had been dropped, since entire-portfolio indexation had not been deemed appropriate. However, the Representative also stated that a selective indexation approach could benefit the Fund if it were used sparingly, as a tool for asset allocation implementation, e.g., to quickly increase the equity weight in the portfolio by a few percentage points.

89. FAFICS asked how a global adviser would fit with the Investments Committee and how the selection of such an adviser would take place. A question was also raised as to whether such an adviser was needed in addition to the guidance received from the Committee. A member of the Committee answered that external resources were very useful and informative when it came to making investment decisions.

90. As had been observed in previous discussions with the Investments Committee, OIOS and the Board, the non-discretionary adviser model had become somewhat outdated. Following a lengthy series of discussions with the Committee, the Investment Management Division was making a gradual shift towards more independent sources of investment research.

91. In response to a question raised by a member of the Board regarding the use of currency futures to reduce portfolio risks, the Director of the Investment Management Division stated that the Fund was not using currency futures because the investment horizon was too short for the Fund. The Chair of the Investments Committee concurred with the Director, noting that it would be an expensive solution as well.

92. A member of the Board inquired about the performance of the fixed-income portfolio over the past 1, 3 and 5 years, asking whether the benchmark duration was appropriate, given the change in the demographics of the beneficiaries and participants. The Director of the Investment Management Division responded that the fixed-income benchmark had a structural mismatch with the Fund's liability in terms of currency weighting, because the current benchmark (the Barclays Global Aggregate index) gave more weight to the debt of countries that needed to borrow frequently and heavily than to countries that did not need to issue debt and maintained better credit ratings. However, this was a leading benchmark in the

industry, and it would not be easy to find a suitable alternative. The subject of the customization of the fixed-income benchmark had been discussed at previous meetings of the Investments Committee.

93. In response to questions raised by the participants' group regarding socially responsible investments, the Director of the Investment Management Division stated that the budgetary request for resources for consulting services and staff had not been approved. However, the issues related to such investment were an important component in the due-diligence process related to the investments included in the IFC Fund and the externally managed Emerging Markets Fund.

94. In response to a request from the Board for additional disclosure, the Investment Management Division presented a supplemental document to explain the gross realized loss reported by the Board of Auditors for the biennium 2008-2009. The Representative of the Secretary-General highlighted the fact that the Fund had realized gains of $3.2 billion, which had more than counterbalanced the realized losses and had resulted in a net gain of $0.412 billion. The Representative also emphasized the importance of viewing the portfolio as a whole, in terms of strategic asset allocation, rather than looking at individual transactions, in terms of stock selection.

95. The Division was encouraged to share the figures relating to realized gains and losses, and therefore the relevant tables were distributed to the Board of Auditors and the Audit Committee. Another member of the executive heads group requested that in future, a detailed analysis of realized gains and losses be more fully disclosed, for example, as a footnote to the financial statements.

96. The Representative of the Secretary-General pointed out that the Fund's principal had fluctuated widely from $31.1 billion in 2008 to $37.3 billion in 2009, which had brought the Fund from unrealized losses of $10.4 billion in 2008 to unrealized gains of $6.2 billion in 2009. The IPSAS accounting system, once implemented, would be helpful in permitting these numbers to be arrived at more precisely and in a timely manner.

97. The Chair of the Board expressed his appreciation to the Representative of the Secretary-General and to the Director of the Investment Management Division for their openness and their readiness to share information. He also expressed his satisfaction at the detailed explanation regarding the performance numbers.

B. Membership of the Investments Committee

98. The Board noted that the terms of the following members of the Investments Committee would expire at the end of December 2010: Fernando G. Chico Pardo (Mexico), Achim Kassow (Germany), William J. McDonough (United States of America), Hélène Ploix (France) and Ivan Pictet (Switzerland; ad hoc member). The valuable service provided to the Committee by Mr. Chico Pardo was recognized.

99. The Board also noted the intention of the Secretary-General to extend the appointments of Mr. McDonough and Mr. Kassow as regular members for additional three-year terms, Ms. Ploix as a regular member for a one-year term (she would reach the maximum term limit on 31 December 2011) and Mr. Pictet as an ad hoc member for an additional one-year term. The Secretary-General intended to appoint Mr. Simon Jiang (China) as a regular member for a three-year term and Ms. Hilda

Ochoa-Brillembourg (Bolivarian Republic of Venezuela) as a new ad hoc member for a one-year term, commencing on 1 January 2011.

100. A member of the Board inquired about the criteria that the Investment Management Division had used in identifying potential members of the Investments Committee. The Director responded that, in consultation with the Representative of the Secretary-General, the Division had decided that the primary consideration would be merit, bearing in mind the types of talent that would be required and the need for geographic representation and gender balance.

101. The Board took note of the Secretary-General's decision to approve the membership document of the Committee.

102. The current membership of the Investments Committee is set out in annex VII.

Chapter VI
Administrative matters of the Fund

A. Financial statements for the biennium 2008-2009

103. The Board considered the financial statements of the Fund for the biennium ended 31 December 2009 and the comparative data for the biennium ended 31 December 2007, including the notes to the financial statements, relevant statistics on the operations of the Fund and the income information for the years ended 31 December 2008 and 31 December 2009 (see annexes VIII and IX). The Board was informed that, for the first time, the Fund had included liabilities for after-service health insurance, repatriation grants and annual leave on the face of the financials. The Fund had also included a description of the pension plan in the notes to the financial statements.

104. The Board noted that during the biennium 2008-2009, the principal of the Fund had increased from $30.6 billion to $33.1 billion. During the same period, the market value of the Fund had decreased from $41.4 billion to $36.7 billion, or 11.4 per cent. The Board also noted that total investment income had decreased from $7.2 billion to $2.7 billion, or 62.3 per cent, during the biennium. In addition, there had been a 91.4 per cent decrease in net profit from the sale of investments and a 37.7 per cent decrease in total income. The Board noted that the total of $411 million in net profit on the sale of investments reported for the biennium had consisted of a profit of $879 million for the year 2008, minus a loss of $468 million for the year 2009. Also during the biennium ended 31 December 2009, the contribution income of the Fund had increased from $3.1 billion to $3.7 billion, or 18.5 per cent. During the same period, benefit payments made by the Fund had increased from $3.2 billion for 2006-2007 to $3.8 billion for 2008-2009, or 17.9 per cent, owing primarily to the increase in the number of beneficiaries.

105. The Board noted that the number of active participants had increased from 106,566 to 117,580, or 10.3 per cent, over the course of the biennium, compared with an increase of 13.8 per cent during the previous biennium. Furthermore, the number of benefits in award had increased from 58,084 to 61,841, or 6.5 per cent, during the biennium, compared with an increase of 5.3 per cent during the previous biennium.

106. The total expenditure for the payment of benefits, administrative and investment costs of $3.9 billion during the biennium 2008-2009 had exceeded total contribution income for the same period by $163 million. By comparison, during the biennium 2007-2008, total expenditures of $3.3 billion had exceeded contribution income by $153 million.

107. Following the presentation of the report of the Board of Auditors, the Board made a number of observations and requested that appropriate disclosure be made in the financial statements in future. Taking note of the challenging financial environment during the biennium, and in addition to investment matters, the Board commented on specific expenditure categories, especially those in which significant variance had been observed during the current and the comparative bienniums. The Board took note of the explanations made by the Fund secretariat and the representatives of the Division and reaffirmed the need for the Fund to exercise prudence in all financial matters.

108. **After reviewing the financial statements and considering the findings of the Board of Auditors, the Board approved the financial statements of the Fund for the biennium 2008-2009.**

B. Accounting standards for the Fund

109. The Board considered the note on the adoption of the new accounting standards by the Fund. Reports were presented on an overall implementation programme for the Fund and on an Accounting Policy Manual relating to the Fund's investments. The Board was informed that both reports had been completed in preparation for the adoption of IPSAS (and the IFRS standard IAS 26) as the new accounting standards, planned for the beginning of 2012.

110. The Board was informed that, for defined benefit plans such as that provided by the Fund, IAS 26 recognized three possible formats for the disclosure and presentation of actuarial information, as detailed in paragraph 28 of the Standard.

111. Under format (a), a statement is included in the financial statements showing the net assets available for the payment of benefits, the actuarial present value of promised retirement benefits and the resulting surplus or deficit.

112. Under format (b), the financial statements include a statement of net assets available for the payment of benefits and a statement of changes in net assets available for such payment. The actuarial present value of promised retirement benefits is disclosed in a note to the statements. The financial statements may also be accompanied by a report from the actuary supporting the calculation of the actuarial present value of promised retirement benefits.

113. Under format (c), the financial statements include a statement of net assets available for the payment of benefits and a statement of changes in net assets available for such payment, with the actuarial present value of promised retirement benefits contained in a separate actuarial report.

114. The Committee of Actuaries presented information endorsing the adoption of format (b) under IAS 26 for the disclosure of information on the actuarial liabilities of the Fund. The Committee explained that actuarial valuations would continue to be completed on a biennial basis under that format. The Committee also noted its support for biennial valuations because: (a) the Fund's obligations were reviewed on a long-term basis, such that annual valuations were of little added value; (b) annual valuations and reporting could create volatile financials; and (c) annual valuations would be costly. Furthermore, it was noted that many large plans reported on a biennial basis and that current Fund governance practices provided for biennial valuations.

115. Similarly, the Audit Committee, at its 11th meeting, in June 2010, recommended that, in the light of the observations made by the Committee of Actuaries, the decision to select the format for the disclosure and presentation of actuarial information should rest with the Fund's management.

116. The executive heads noted the lack of guidance on IPSAS 25 provided by the external auditors to their respective organizations. The executive heads requested that the Fund secretariat provide any other relevant financial information required by a member organization to meet the requirements of its external auditors for

compliance with all applicable accounting standards. They also requested that the Fund secretariat provide to all member organizations, as at 31 December 2010 and thereafter annually, the statement of actuarial sufficiency that may be due from each such organization, as determined by the then most rec[illegible] ctuarial valuation of the Fund, pursuant to article 26 of the Regulations of the Fun[illegible]

117. The CEO reminded the Board that in 2008, the consulting actuary had submitted a note on this topic. The consulting actuary had highlighted the pooled nature of the Fund with respect to assets and liabilities, concluding that there was no consistent or reliable basis on which to allocate the obligations, plan assets and costs to individual organizations participating in the Fund and that, because the assets were the property of the Fund, it would be misleading to imply in any way they were potentially fungible with other assets of the member organizations. The Committee of Actuaries agreed with the consulting actuary.

118. The CEO also stated that the United Nations system's Task Force on Accounting Standards had prepared two notes on IPSAS 25. Both notes clarified the accounting treatment to be given to participating organizations' involvement in the Fund and indicated that such organizations should account for the Fund on a defined-contribution-plan basis. The CEO provided sample wording for the disclosure under IPSAS 25 for the Fund.

119. Moreover, it was observed that the notes prepared by the Task Force also provided sample disclosure wording as used by IFAD in its current financial statements.

120. With respect to the request made by the executive heads for the disclosure of any liabilities that might be due from a member organization pursuant to article 26 of the Regulations of the Fund, the CEO stated that, for each actuarial valuation of the Fund, the consulting actuary completed a statement of actuarial sufficiency under article 26. The statement was included in the consulting actuary's report, and the sufficiency status was confirmed by the Committee of Actuaries and reported to the Board at its session each year when the actuarial valuation was completed. The CEO also agreed that the Fund would be prepared and willing to provide information and support to the external auditors of Fund member organizations regarding pension disclosure arising from the implementation of IPSAS.

121. Regarding the IPSAS implementation plan for the Fund, the CEO commented that it was realistic and could be carried out by 2012, provided that the requested resources were approved by the Board. The CEO stressed the need for staffing and consulting resources to ensure timely implementation, and observed that revisions to the plan were expected in future, owing to periodic revisions to the standards and guidelines.

122. **After an in-depth discussion, the Board agreed that the new CFO must lead the implementation of the new accounting standards and that that must be his or her top priority. The Board recommended that any additional IPSAS staff or consulting resources approved by the Board work with and under the guidance of the CFO for the purposes of IPSAS implementation. The Board also requested that, at next year's Board meeting, the Fund secretariat report the status of such implementation.**

123. **In concluding its discussion on the new accounting standards, the Board decided to adopt IPSAS as the accounting standards of the Fund as from**

1 January 2012. The Board took note of the implementation programme and the Accounting Policy Manual for investments and requested the Audit Committee to review and monitor future revisions.

C. Status report on the Emergency Fund

124. The Board had established the Emergency Fund during its eighteenth session, held in 1973. The Emergency Fund had been established on the basis of voluntary contributions from member organizations, staff associations and individual contributors, to alleviate the distress of retirees who were receiving small pensions as a result of currency fluctuations and inflation. Since 1976, it had been used to provide relief in individual cases of proven hardship owing to such factors as illness and infirmity. The Emergency Fund, which was not an integral part of the Fund's pension benefit system, was financed from the assets of the Fund (and voluntary contributions) through an appropriation of $200,000 each biennium, as approved by the General Assembly.

125. The Board reviewed the operational statistics related to the Emergency Fund since the submission of the previous relevant report, in July 2009. The Board noted that, during the one-year period from 1 May 2009 to 30 April 2010, 13 disbursements, amounting to $28,326, had been made. The largest single payment ($6,303) had covered the medical expenses of a late pensioner's surviving spouse residing in Afghanistan. As at 30 April 2010, the total expenditure from the Emergency Fund since 1976 had reached $1,193,899. All disbursements made during the reporting period had been one-time payments to beneficiaries who had suffered proven hardship owing to illness, infirmity or funeral expenses.

126. The Secretary/CEO informed the Board that, during the period from 1 May 2009 to 30 April 2010, 75 requests had been reviewed, of which 20 had been found not eligible under the Emergency Fund guidelines. It was noted that 42 cases were still under consideration and that most of these were related to the reimbursement of medical expenses or assistance to cover funeral expenses. As such cases generally lacked supporting documentation such as original bills or invoices, follow-up letters had been sent requesting the required documentation.

127. As part of the Fund's efforts both to promote the Emergency Fund and to publicize the application criteria and requirements to help pensioners file timely and complete requests for assistance, an information booklet on the Emergency Fund had been published in April 2008. The booklet was available in English, French, Spanish and Arabic, both in hard-copy form and on the Fund's official website. The CEO had highlighted the availability of the Emergency Fund in its 2009 and 2010 annual letters. Although it was too early to draw any conclusions, it was noted that the efforts to promote the Emergency Fund appeared to be having the desired effect, since the number of requests during the past two reporting periods had been approximately 44 per cent higher than during the previous two periods. Certain members of the Board expressed concern about the perceived rigidity of the criteria and stated that they wished to improve the utilization of the appropriated funds to alleviate hardship for individuals and families.

128. The Fund highlighted the improvements made in the overall utilization statistics and provided the relevant data, segregated by number of requests by country and by region, by former employer of the beneficiary requesting assistance,

and by benefit type. Additional statistics were provided regarding the breakdown of the amounts of payments by country and by region, as well as historical data regarding annual payments since 2003.

129. **The Board took note of the status report on the Emergency Fund. The Board also welcomed the decision, taken during its consideration of the report of the Working Group, to carry out a study on enhancing the scope of the Emergency Fund, as well as the flexibility and response time in its administration.**

D. Revised budget estimates for the biennium 2010-2011

130. The Board reviewed a proposed revision to the Fund's budget for the biennium 2010-2011 reflecting a net increase of $301,600, or 0.2 per cent of the budget, compared with the approved appropriation of $176,318,500, together with a request for the redeployment of funds to correct expenditure heading errors contained in the report of the Board on the administrative expenses of the Fund (A/64/291).

131. The Board took note of the additional resource requirements, as follows:

(a) Administrative costs ($301,600, or 0.3 per cent) consisting of:

(i) Posts ($109,600):

- Reclassification of the Chief Legal Officer post from the P-5 to D-1 level
- One new established post, for an Accountant at the P-4 level as an IPSAS specialist

(ii) General operating expenses ($192,000):

- Provision for the cost of an estimated 20 Tribunal cases as described in the note by the Secretary/CEO of the Fund on cost-sharing arrangements of the Appeals Tribunal

(b) Investment costs ($3,453,400) funded through redeployment from contractual services consisting of:

(i) Posts ($94,600):

- One new established post, for an Accountant at the P-4 level as an IPSAS specialist

(ii) Other staff costs ($1,244,900):

- General temporary assistance ($1,198,000)
  - o Provision for 13 general temporary assistance posts for a period of 12 months
- Overtime ($46,900)
  - o Additional overtime

(iii) Costs for a consultant ($500,000):

- Funding for a consulting firm to assist with the implementation of IPSAS

(iv) General operating expenses ($1,613,900):

- Rental and renovation of office space to accommodate the additional 9 posts authorized under General Assembly resolution 64/245

132. The appropriations made in accordance with document A/64/291 for administrative costs of $100,000 for consultants for the benchmarking study and $1,924,700 for the maintenance and renovation of premises had inadvertently been requested under the category "Contractual services". In addition, an amount of $67,500 for the travel of Board members had been requested under the category "Travel of representatives".

Discussion in the Board

133. The Board made a number of decisions concerning the Fund's request and commented on the fact that additional appropriations, including for modifications in staffing structure were being requested in a non-budget year. The Board took note of the request that the expenditure categories be corrected and of the proposal aimed at the redeployment of certain resources.

134. The Board also recognized that it did not have sufficient time to review the proposed biennial budget documents during its sessions and discussed possible ways in which to enhance its review process. In concluding its discussions, it requested that the proposed budget documents be transmitted 90 days prior to the start of each Board session. In addition, in order to prepare more fully for sessions, it established a Budget Working Group composed of two members each from the governing bodies, the executive heads, the participants and FAFICS. The Working Group would meet a few days before the start of a Board session to review the proposed budget, rather than during the session. The Board also discussed the fact that the Fund did not fully comply with the methodology used by the United Nations for the preparation of its budgets.

135. While it endorsed the Board's recommendations, the participants' group expressed its concern at the fact that the Board had not approved additional resources. In particular, the group was concerned that that decision might jeopardize the implementation of IPSAS, resulting in a possible delay. Furthermore, the group was strongly of the view that all IPSAS-related activities must take the form of a project under the direct supervision of the CFO. In that connection, both the CEO and the Representative of the Secretary-General were encouraged to expedite action to fill the position of CFO as soon as possible. The group also expressed its regret that the reclassification of the Chief Legal Officer had not been approved.

Decisions by the Board

136. **The Board noted with concern the substantial changes in resource allocations and approved the proposals, subject to the following conditions and as detailed further in annex XIX:**

(a) **The total appropriation shall remain at $176,318,500. Additional resources proposed under "Administration" in the amount of $301,600 are not approved;**

(b) **Requirements relating to IPSAS implementation should be met through the redeployment of resources. Moreover, resources in the amount of**

$94,600 corresponding to one year of a P-4 salary should be redeployed from "Investment" to "Administration" for the purpose of Accountant, IPSAS Specialist in the secretariat, under "General temporary assistance":

(Thousands of United States dollars)

		Redeployment		
	Original budget	*Proposed*	*Further redeployment*	*Revised budget*
Administration	92 281.4	-67.5	94.6	92 308.5
Investment	81 292.1		-94.6	81 197.5
Audit	2 645.0			2 645.0
Board expenses	100.0	67.5		167.5
Total resources	**176 318.5**	**0.0**	**0.0**	**176 318.5**

(c) No new posts are approved. Required additional staffing as reflected in the document should be met using general temporary assistance;

(d) The reclassification of the Chief Legal Officer is not approved at this time.

137. **The Board decided that the Fund secretariat should provide a detailed analysis of the budgetary variances between the approved budget and actual expenditures to the Board, on an annual basis and in the context of the programme budget performance report.**

138. **The Board decided that future proposed budget documents should be provided to all members 90 days prior to a Board session. The Board also decided that a Budget Working Group should be convened to review the proposed budget for the biennium 2012-2013 and that the Fund should, when preparing budget estimates, align itself as closely as possible with the methodology used by the United Nations.**

139. **The revised budget for the 2010-2011 biennium, as summarized in the table above, resulted in no change to the total appropriation of $176,318,500, with revised administrative costs of $92,308,500, investment costs of $81,197,500, audit costs of $2,645,000 and Board expenses of $167,500.**

140. **The Board endorsed recommendations that the Budget Working Group be constituted as follows:**

Governing bodies	**J. Forest (ITU)** **G. Kuentzle (United Nations)**
Executive heads	**S. Van Buerle (United Nations)** **R. Barr (ITU)**
Participants	**C. Santos Tejada (United Nations)** **D. Walter (WHO)**
FAFICS	**T. Teshome** **A. Castellanos del Corral**

E. Progress report on the Third Management Charter (2008-2011)

141. The Fund's Third Management Charter had been presented to the Board at its fifty-sixth session, in July 2008. The Management Charter outlined the proposed objectives and initiatives for 2008 through 2011, with a view to establishing a framework for future action and providing the basis for a concrete and enhanced compact between management and the Board in conformity with the Fund's governance mechanism.

142. The Third Management Charter described the five main strategic objectives of the Fund: to manage the growing complexity of the Fund's operations, to ensure long-term solvency and address the growing interdependency of assets and liabilities, to modernize the Fund's ageing information systems, to ensure high-quality service and high operational standards, and to consider social and environmental responsibility in all its activities and processes. The Management Charter also described the proposed strategies and initiatives required for the attainment of those objectives.

143. A detailed progress report was presented to the Board, in line with the commitment of the CEO and the Representative of the Secretary-General to report on progress during the period covered by the Management Charter, as well as with their accountability to the Board. The progress report covered both the Fund secretariat and the Investment Management Division, and included: (a) a description of the relevant indicators and deliverables for each activity, grouped under the five main strategic objectives and under each functional area; (b) an update on the current status; and (c) the identification of further steps that management intended to take before the end of the period under consideration.

144. In order to facilitate an overall assessment of the performance of the Fund, a scorecard, developed to summarize the progress made in the attainment of the Fund's objectives, was also presented.

145. **The Board noted, with appreciation, the document and the significant progress made on the objectives set out in the Third Management Charter. The Board requested that the scorecard and the progress report be further refined so that a simplified version of the documents in keeping with the Fund's main strategic priorities and along the lines of the strategic plan documents used for United Nations budgeting, could be submitted to the Board at its next session, in 2011.**

F. Contractual arrangements with the consulting actuary

146. In 2008, the Board had considered a note on contractual arrangements with the consulting actuary, presented by the Secretary/CEO. It was recalled that article 10 of the Regulations of the Fund stated: "A consulting actuary to the Board shall be appointed by the Secretary-General upon the recommendation of the Board for the purpose of providing actuarial services to the Fund."

147. In line with the recommendations of both the Fund's internal auditors and the Board of Auditors, the Board had requested that a formal bidding exercise be undertaken with a view to future contractual arrangements for actuarial services and that the shortlisted vendors be presented for its consideration at its 2010 session.

148. At its current session, the Board was presented with a note describing the process followed in 2010 and was informed that the Fund secretariat and the Procurement Division had completed a formal bidding process in order to draw up a shortlist of vendors for the Board to review at its 2010 session. The CEO noted that the Division's procedures and policies had been followed and informed the Board that the technical and financial evaluation steps of the selection process had been taken but that the process but had yet to be fully completed. The CEO also noted that adherence to the Division's procedures would yield a single "best value for money" candidate, as opposed to a shortlist of candidates.

149. **The Board, taking into account the Fund's ongoing need for actuarial services and the importance of maintaining continuity of service, and recognizing the importance of its role in recommending a consulting actuary to the Secretary-General, decided:**

(a) **To defer a decision on the recommendation of the consulting actuary until its 2011 session, after the completion of the procurement process by the Procurement Division and after receiving the "best value for money" recommendations of the Headquarters Committee on Contracts;**

(b) **To authorize the CEO to extend the contract of the current consulting actuary for one year, from 1 January to 31 December 2011.**

G. Results and conclusions of the business impact analysis and business continuity and disaster recovery plans

150. A note on the status of the business continuity and disaster recovery procedures had been presented to the Board in July 2009. As it was essential that the Fund be in a position to continue to pay benefits to retirees and beneficiaries during contingencies and emergencies, well-designed and -tested business continuity and disaster recovery plans were critical preparedness measures. It was equally essential that such measures be monitored and reviewed for effectiveness.

151. The results and conclusions of the business impact analysis conducted by the Fund in 2010 were brought to the attention of the Board. The study identified key risk exposures, assessed the relative criticality of the Fund's functions, and developed and tested a new business continuity management strategy to support the Fund's operational continuity requirements. The study also documented the updated and refined strategy in a new business continuity/recovery plan.

152. The revised strategy developed by the Fund reflected significant improvements compared with the previous business continuity management strategy and addressed all the limitations identified by the business impact analysis, including by providing for the ability to make benefit payments to all of the Fund's current retirees and beneficiaries. Additionally, a "crisis management" protocol enabling the Fund to address all potential significant business disruptions in a coherent, uniform and controlled manner was introduced, adopted and documented in the context of the new business continuity/recovery plan.

153. **The Pension Board welcomed the development of the business continuity plan, noting that the new plan had been fully tested and that it covered pension benefit payments to all retirees and beneficiaries and addressed all the limitations of the previous approach to business continuity.**

H. Human resources plans for the Fund

1. Human resources guiding principles

154. A document was presented that identified the principles that would guide the management of the Fund's human resources and enable the Fund to properly and fully meet its mandated business objectives, and to respond to the identified challenges in the most efficient and effective manner possible.

155. The CEO described the consultative process that he had been leading together with the Representative of the Secretary-General, which had facilitated a unified approach to human resources management for both the Fund secretariat and the Investment Management Division, based on a set of guiding principles.

156. The CEO and the Representative reaffirmed their strong belief that the adoption of the guiding principles for human resources management, as well as the implementation of the human resources framework described in the document, were essential if the Fund was to be able to meet its commitments and obligations and to achieve its mission and goals. The guiding principles would also steer the development of appropriate human resources strategies and practices for the Fund and would be used as a basis when the memorandum of understanding between the Fund and the Office of Human Resources Management was revised. The guiding principles for the human resources management of the Fund are as follows:

(a) *Specialized professional expertise*. Given the complexities stemming from the nature of the Fund as an international inter-agency entity similar to a financial institution, but part of the United Nations system, with a sui generis governance structure and an intricate set of regulations, the availability of adequate specialized professional expertise is considered crucial for the achievement of the Fund's mission and goals;

(b) *Career development for Fund-specific occupational groups*. The Fund recognizes that specialized expertise is needed in fields of work related to pension administration as well as in investment management, and that these are Fund-specific careers and occupational groups in their own right requiring a special long-term approach, in particular with regard to recruitment, training and career development practices;

(c) *Flexibility in human resources management and authority of the CEO*. The Fund recalls that, as part of the Board's review of the long-term administrative arrangements of the Fund, carried out in 1998 and 1999, the Board agreed to grant autonomy to the CEO in selecting staff for the Fund secretariat, while continuing to use the United Nations machinery for reviewing candidates for vacant posts and promotions. Upon the review of cases by the central review bodies of the United Nations, the final decision in the selection of a candidate therefore rests with the CEO of the Fund. The Fund also recognizes that United Nations administrative procedures and instructions are not automatically applicable to the Fund and that flexibility is required in human resources management to ensure proper consideration of the special circumstances, requirements and development of the Fund as an international inter-agency entity in the wider United Nations system;

(d) *Best practices*. The Fund recognizes the importance of identifying and adopting the best human resources management practices in the pension sector.

157. **The Board took note of the principles that would guide the Fund's management of human resources. The Board requested that performance metrics be developed to support the measurement and monitoring of the effectiveness and efficiency of the Fund in carrying out its various operational, investment and support processes. The Board also requested that those metrics be reported on to the Board at its next session, in July 2011.**

2. Medium-term human resources strategic plans

158. In 2009, in the context of the 2010-2011 budget review, the Board had requested that the CEO and the Representative of the Secretary-General present a strategic approach to the human resources requirements of the Fund consistent with the recommendations resulting from the Whole Office Review study.

159. The medium-term human resources strategic plans for the Fund secretariat and the Investment Management Division, which presented the human resources requirements for the next four bienniums (2010-2011 to 2016-2017), were introduced. The plans considered the recommendations resulting from the Whole Office Review and highlighted the principal anticipated changes to organizational structure and functions as well as associated staffing levels. The Secretary/CEO clarified that the reference to the anticipated human resources was intended to provide an overall context and did not constitute budget requests at present.

160. A representative of the governing bodies recalled that, during the discussion on the 2009-2010 budget request, it had been made clear that the number of Fund staff could not continue to grow at the same rate as in recent years and that efficiencies resulting from the introduction of new systems both in the Fund secretariat and in the Division should be reflected in the Fund's medium-term human resources planning. Executive head representatives commented that the Fund's medium-term human resources plans should be linked to a biennial strategic planning process and to operations and programme goals set in context of the new results-based-budgeting process. Furthermore, executive head representatives suggested that efficiency measures should be developed and presented together with the next budget request in 2011. The measures should reflect efficiency by headcount, such as billions of dollars of assets under management by Division staff, the volume of cases of new entrants processed by operational staff, or similar metrics that might permit relevant and adequate comparisons with other public defined-benefit pension funds having similar characteristics and plan design. The participants' group expressed its overall support for the human resources guiding principles presented and for the medium-term human resources plans. The group also expressed the view that the Fund needed to continue with its modernization efforts and with the introduction of planned efficiency and effectiveness measures.

161. **The Board took note of the plans and recommended that, in future, the medium-term human resources strategic plans be integrated into the Fund's strategic planning process and any staffing-level requests or structural changes be incorporated into the corresponding budget proposals submitted to the Board.**

I. Enterprise-wide risk management policy

162. The Fund, like any other pension administration organization, faced a variety of risks, some of which represented significant challenges. Overall, the risks faced by the Fund were varied in nature: investment-related, operational, legal, administrative, technological, financial, systemic and demographic. Risk management was a complex and difficult endeavour. It was, nevertheless, a fundamental task of Fund management suitably guided by the Board.

163. The Fund had recognized the limitations of the traditional "silo approach" to risk management and had presented an enterprise-wide risk management policy to the Board at its fifty-third session, in 2006. The Board had welcomed the initiative and endorsed the policy.

164. The policy presented a systematic and integrated approach to risk management, focusing on the risks that posed significant threats to the Fund and were likely to occur.

165. The Board noted that, in addition to the policy, the Fund had established risk management processes and developed controls to address the main challenges in risk mitigation. The processes and controls were presented to the Board.

166. In recent years, it had become increasingly clear that the Fund's risk framework needed to be continually reviewed and updated to effectively identify, assess and manage risk. The revised policy incorporated the findings of the latest enterprise risk assessment review, conducted in 2009. It presented a set of core risk management principles, a more detailed description of risk management functional responsibilities, and comprehensive risk treatment and response plans for the Fund's high priority risk areas. The enterprise-wide risk management policy also refers to the accountability statement for the Fund.

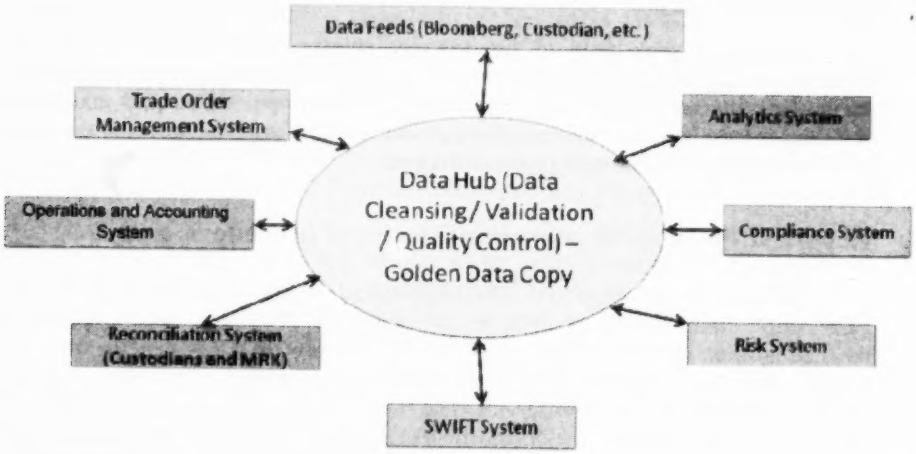
167. **The Board approved the revised enterprise-wide risk management policy and welcomed the detailed risk treatment and response plans that were presented. The Board noted that the policy would allow the Fund's senior management to continue to effectively monitor and mitigate the Fund's risks. Further, the Board also noted that the revised policy would allow the Fund to react quickly to changes in the risk profile.**

168. The Investment Management Division Information System Section developed an information technology strategy and framework to support and enable the Fund's investment management activities from front office to back office. The Division had identified three areas where information technology support was needed: investment front office, dealing with portfolio management and investment analysis; middle office, dealing with compliance and risk management and back office (operations) dealing with settlements, payments, record-keeping, accounting and automated reconciliations. The key purposes of this strategy were to facilitate straight-through processing (automated trade processing) to ensure the security of investment trades, to support electronic trading, to produce real-time investment data, and to employ the most solid investment infrastructure. In that regard, emphasis was placed on best practices and reliable mechanisms such as the SWIFT network. In addition, the Division was building information technology capacity to maintain the various financial systems being implemented. The new infrastructure increased timeliness and made the investment processes robust, while providing a well-documented audit

trail. The information technology infrastructure changed the business operations from a manual process, which had significant risks since manual processes could cause major errors, leading to potentially sizeable monetary claims and losses. The new infrastructure workflow with enforced controls such as dual authorizations will reduce human error and the risk of fraud. Automation ensures an economical, timely and reliable way to communicate with the independent master record-keeper, custodians and financial counterparties. It provides the necessary tools to perform daily reconciliation. More importantly, all market data are now available in a timely manner for timely business decisions, monitoring and review of investment transactions and positions. This infrastructure, which is partially in place supporting some Investment Management Division business areas (for example, SWIFT and the trade order management system, Charles River, which were demonstrated during the Board session), is expected to grow in the near future to enable all business areas of the Division and support the new accounting standards (IPSAS), a multi-custodian structure, an independent master record-keeper and automated daily transaction reconciliation.

Diagram 1

Investment Management Division business application architecture


Data Feeds (Bloomberg, Custodian, etc.)
Trade Order Management System
Analytics System
Data Hub (Data Cleansing/ Validation / Quality Control) – Golden Data Copy
Operations and Accounting System
Compliance System
Reconciliation System (Custodians and MRK)
Risk System
SWIFT System

Risk management

169. The Risk and Compliance Section of the Investment Management Division had created a comprehensive risk management framework. The approved Risk Management Manual integrated a wide array of risk management policies and procedures. It set forth the guiding principles of an effective risk management programme for an investment organization. The Manual formulated the governance which integrated policy, risk identification, assessment, monitoring and reporting, and identified the major risks to which the Fund would be exposed. For each risk area, it outlined the appropriate control and implementation methodology. The request for proposals for the selection of the risk analytics system was completed in May 2010, resulting in the selection of RiskMetrics as a portfolio analytics, performance and risk attribution system. RiskMetrics is an industry leader in providing analytics software with particular strengths in modelling the portfolio, taking the liability term structure into consideration. The Division has implemented

the gift and hospitality policy, outlining guidelines for its staff covering the possible receipts of gifts and offers of hospitality. It had subjected itself to high ethical standards to mitigate any actual or perceived conflicts of interest by adopting a zero tolerance policy for the receipt of gifts. The policy was very specific in terms of acceptable conduct for hospitality events.

170. The Investment Management Division has now implemented the code of ethics and policy pertaining to staff personal trading. Staff members are prohibited from engaging in personal securities trading based on the knowledge of the Fund's activities.

171. The Investment Management Division did a short live demonstration of the Charles River Order Management System, SWIFT and RiskMetrics. The Charles River demonstration showed part of the life cycle of an investment transaction and the associated controls.

172. During the information technology and risk presentation, the Investment Management Division stressed in particular the progress of the independent master record-keeper/multi-custodian request for proposal, where the Division was strengthening the use of an external independent master record-keeper with daily automated reconciliation. The Division also shared with the Board the sample RiskMetrics dashboard.

173. **The Board took note of the systems implemented and welcomed the progress made and achievements in enhancing the information technology facilitating the management of the Fund investment portfolios and managing the associated risks. The Board also welcomed and acknowledged the creation of a comprehensive risk management manual.**

J. Report of the medical consultant (Rules of procedure, rule D.3)

174. The medical consultant to the Board presented a report with respect to the two-year period from 1 January 2008 to 31 December 2009. The report contained detailed information and analysis with regard to the new disability benefits awarded during that period, together with data on new disabled children's benefits and on the deaths of participants while in service. The report analysed the incidence rate (0.57 per thousand participants), the diagnostic categories by gender and the average age, as well as the average contributory service of Fund participants to whom new disability benefits were awarded.

175. The medical consultant noted that the overall profile of medical causes for disability awards over the last several years had remained stable. The leading cause of disability continued to be psychiatric (42 per cent), which, combined with the following four diagnostic categories, represents 78 per cent of all new disability cases: neurological (12 per cent), neoplasm (9 per cent), cardiovascular (8 per cent) and orthopaedic (7 per cent).

176. Detailed analysis by diagnostic category showed that neoplasm, trauma and cardiovascular diseases were the leading causes of death. The medical consultant noted that the average annual mortality of approximately 0.97 per thousand remained at a similar level, as reported for the previous bienniums. He noted the importance of preventative programmes in order to reduce the three leading causes of death.

177. Taking note of the recent influenza outbreak, the medical consultant presented a report on pandemic influenza A (H1N1), which emerged in March 2009 and became the predominant strain of influenza virus strains, spreading more quickly than expected.

178. During the discussion, a few Board members expressed concern that during their Staff Pension Committee meetings, they had considered cases for disability benefit resulting from chronic illness that had been detected after a short period of service. The medical consultant advised that, as noted earlier, the incidence rate remained low and that the current examination focused only on fitness to work.

179. **The Board expressed appreciation for the information and analysis provided by the medical consultant and discussed the issue of standards for medical examinations required for taking up employment in a member organization and the requirement under article 41 of the Regulations. The Secretary/CEO was requested by the Board to coordinate with the medical consultant to look into the possibility of establishing a standard for medical examinations for purposes of participation in the Fund pursuant to article 41 of the Regulations.**

K. Change to administrative rule H.6

180. The Board reviewed a note by the United Nations Staff Pension Committee proposing a change to administrative rule H.6 (b) to increase the interval between review periods for adult disability awards in exceptional cases from three to five years. As part of an analysis of review periods by the Committee, it was noted that the workload on the part of the medical consultant had increased in relation to the management of cases.

181. In accordance with the requirement under administrative rule H.6 (b), most beneficiaries are able to submit a medical report for the review of their continued eligibility for a disability benefit every three years. However, there are cases where the disability is chronic and the medical evidence clearly indicates the presence of a permanent disability with unfavourable prognosis for recovery. To ease the burden on the medical consultant to each Staff Pension Committee, it was proposed that the review period for such cases be increased from three to five years, at the discretion of the Staff Pension Committee considering the case.

182. The Committee's note described medical conditions of a chronic or severe nature under the following diagnostic categories that could be considered for review up to three years after initial award and, thereafter, every five years: psychiatric, neurological, collagen, orthopaedic/trauma, genito-urinary, AIDS and neoplasms. The factors to be considered while making the decision whether the review period should be extended to five years will be: (a) the advancement of the illness or gravity of the injury causing incapacitation for further service; (b) the occupational category of the staff member; (c) presence and severity of co-morbidity/complication(s); and (d) response to treatment and rehabilitation and success in management of the medical condition. In making the determination for the extended review period, each Staff Pension Committee would rely on reasonably established medical criteria as guided by the respective medical officer.

183. The Staff Pension Committee also requested the Board to consider whether there would be any merit in pursuing further the adoption of a provision in the Regulations and Rules to recover amounts paid as death or disability benefits from third parties found liable by a court for injury or death of a participant.

184. **The Board approved the proposed amendment to administrative rule H.6 (*b*) and determined that an enabling provision be included in the Regulations and Administrative Rules to allow recovery from third parties of amounts paid as death or disability benefits whenever possible and appropriate. In that regard, the Fund secretariat will submit a draft provision for consideration by the Board at its next regular session.**

Chapter VII
Audit

A. Report of the Audit Committee

185. The Chairman of the Audit Committee of the Board introduced the fourth report of the Committee and summarized the major conclusions and recommendations made by the Committee. He noted that a decision by the Board was required on the approval of the revised Audit Charter; a policy of self-evaluation; the adoption of IPSAS as the applicable accounting standard for the Fund; and the election of three new members to the Audit Committee. The Audit Committee, as an advisory body to the Board, had expressed its views on those matters.

186. The Chairman informed the Board that the Audit Committee had held three meetings since its last report and met with internal (OIOS) and external auditors (Board of Auditors) as well as the managers of the Fund during each session. With regard to internal auditing, the Committee was satisfied with the quality and number of OIOS reports completed during the reporting period. The Audit Committee was particularly pleased with the audit expertise brought to the investment management area. Overall, the Committee had reviewed seven final reports during the period; the Committee's report contained short comments on each of the audit reports. The Audit Committee had approved the proposed 2010-2012 audit plan based on the results of a comprehensive risk assessment and further endorsed changes to the 2010 plan. Moreover, the Audit Committee supported the audit of governance and oversight of the Investment Management Division as a priority audit for 2011.

187. The Chairman informed the Board that the Audit Committee had consulted several times with the Board of Auditors, the Fund's external auditors, inter alia, on the preparation of financial statements; the establishment of the Chief Finance Officer with dual reporting to the CEO and the Representative of the Secretary-General for the Investments of the Fund; and on the adoption of the new accounting standards. In its report, the Committee had expressed its concern that the Investment Management Division had not responded to the management letter from the Board of Auditors issued in March 2010. The Committee had shared with the Board its concern regarding inadequate disclosure in financial statements regarding investments.

188. Generally, the Audit Committee welcomed the improvements in the Fund's financial statements and had suggested further presentational changes. It urged the Fund to comply with the OIOS recommendation that financial statements be submitted by 31 March each year. Furthermore, the Audit Committee recommended that the Pension Board approve the implementation of IPSAS as the applicable accounting standard for the Fund as of 1 January 2012. It reiterated the Committee's position that the newly established post of Chief Finance Officer should have overall responsibility for the Fund's financial reporting and related processes and controls and would lead the IPSAS implementation. The Chairman emphasized the Committee's recommendation of dual reporting of the CFO in respect of the particular areas of responsibilities of the Representative of the Secretary-General and the CEO, in accordance with the Fund's Regulations.

189. The Audit Committee commended the progress made in risk management in the Fund secretariat and the Investment Management Division and expressed its satisfaction that enterprise-wide risk management was being integrated in all activities of the Fund and that a Fund-wide working group kept an updated risk map and addressed the main sources of risk. The Board of Auditors acknowledged that it had received the Division's Risk Management Manual in March 2010. Finally, the Audit Committee recommended Mr. Ian Robertson as a new expert member to the Committee and requested the endorsement of the Board.

190. As that was his last Board meeting as the Chairman of the Audit Committee, Mr. G. Engida thanked all members of the Committee, past and present, particularly the expert members, Mr. J. Kolb and Mr. J. Fitzsimon, as well as the former representative of FAFICS, Mr. A. Marcucci. He also thanked the staff and management of the Fund secretariat and the Investment Management Division, together with the Secretary of the Committee, for the invaluable support and cooperation the Committee and the Chairman had received during his tenure.

191. **The Board endorsed the report of the Audit Committee, including all its recommendations and conclusions.**

B. Membership of the Audit Committee

192. The Audit Committee discussed its composition and terms of office (four years, non-renewable) and stated, in its third report to the Pension Board in 2009, that it was not advisable to change the entire composition of the Audit Committee at the same time at the end of 2010. For the benefit of continuity, the Committee proposed, and the Pension Board endorsed in principle, a staggered election suggesting that one member from each constituent group of the Staff Pension Committees of the first Audit Committee would be extended to serve for an additional one year, i.e., until December 2011, and that the other members (new members) would be appointed at the fifty-seventh session of the Board in 2010 on the basis of recommendations made by each constituent group, keeping in mind the qualifications required by the Committee's terms of reference.

193. **Accordingly, the Board reviewed the nominations and endorsed recommendations made by each constituent group with respect to the members that would continue to serve for an additional year in the Committee and appointed new Staff Pension Committee members of the Audit Committee as follows:**

(a) **Members of the Audit Committee continuing for an additional year (2011)**

Mr. T. Repasch (United Nations)	**Governing bodies**
Ms. K. Matsuura-Mueller (United Nations)	**Executive heads**
Mr. C. Santos Tejada (United Nations)	**Participants**
Mr. M. Said	**FAFICS**

(b) **New members of the Audit Committee (2011-2014)**

Ms. C. Cliff (International Atomic Energy Agency)	**Governing bodies**
Ms. S. Frahler (World Health Organization)	**Executive heads**
Mr. A. K. Lakhanpal (United Nations)	**Participants**

194. **In addition, the governing bodies nominated, and the Board endorsed, the membership of Ms. V. M. González Posse to replace Mr. T. Repasch in the Audit Committee for a four-year period starting 2012. The curricula vitae of all new members of the Audit Committee were circulated to the members of the Board.**

C. Revised Internal Audit Charter

195. The Pension Board, at its fifty-sixth session in July 2009, endorsed the recommendations of the Audit Committee, including the one concerning the review of the Fund's Internal Audit Charter. The Committee had noted that its terms of reference (section 2.2 (d)) provided that the Audit Committee should: "Review and assess, from time to time, the adequacy of the Internal Audit Charter, and recommend amendments thereto to the Board". Accordingly, it recommended that the Fund's management, the Representative of the Secretary-General for the Investments of the Fund and the CEO jointly consult all appropriate stakeholders and draft a revised audit charter.

196. The Secretary/CEO consulted further with internal and external auditors, as well as the Audit Committee, on the revised text, which updated the developments in the area of internal auditing, particularly the establishment of the Audit Committee, and reflected the Committee's role, especially vis-à-vis audit plans and reporting lines. The Audit Committee reviewed the draft in November 2009 and suggested that as the first revision of the Charter was triggered by the establishment of the Audit Committee, the Charter was to be seen as a living document, which was to be updated from time to time.

197. **The Board reviewed and approved the revised Audit Charter.**

D. External audit

198. The Director of External Audit (South Africa), representing the Board of Auditors, presented via video link from New York the report of the Board of Auditors on the financial statements of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2009. The report is provided in annex X.

199. The Board of Auditors noted that its audit exercise was carried out through a review of financial transactions and operations at the Fund's headquarters in New York, covering both the Investment Management Division and the secretariat of the Fund.

200. The Board of Auditors issued a modified audit opinion on the 2008-2009 financial statements. Clarification was sought by the Pension Board as to the meaning of a modified audit opinion. The Board of Auditors responded that the modified opinion was not a qualification but a caution to highlight inadequate disclosures concerning investments. The Board of Auditors drew attention to its

discussion on the reported net profit on the sale of investments for the current biennium of $412 million as compared to a net profit on the sale of investments of $4.8 billion in the previous biennium. The statements noted that the biennium net profit on the sale of investments consisted of a profit of $879 million in 2008, and a loss of $467 million in 2009.

201. While the context of the losses amid recent turmoil in the financial markets and the global recession was understood, the Representative of the Secretary-General for the Investments of the Fund was urged to provide additional details on the underlying realized gains and losses, as well as unrealized positions, to improve transparency of reporting.

202. The Board of Auditors also commented on the need for investment strategies which minimize losses, within the context of the overall investment goals of the Fund. The Representative of the Secretary-General noted that the Investment Management Division had responded to the market volatility through its diversification and its asset allocation, as a loss minimization strategy. It was also noted that the Division was implementing both a risk management manual and a risk management software tool which should help to manage the volatility of the financial markets better.

203. The Representative of the Secretary-General provided additional clarification on the recommendations concerning investment management, particularly on the "lessons learned" in respect of all realized investment losses for the biennium ending 31 December 2009, and current ongoing realized loss positions, but cautioned the relevance or usefulness of such information at this time and in particular the need to relate realized gains or losses to the overall volume of transactions and size of the Fund.

204. The Representative of the Secretary-General further stated that the Investment Management Division would work with the Audit Committee to improve the disclosure of investment activities and results in the financial statements.

205. The Board noted with satisfaction that the Fund had disclosed end-of-service liabilities, including the after-service health insurance liability, on the face of the financial statements for the first time. The liabilities, however, remained unfunded and the Fund was urged to develop a funding plan for the consideration of the Board.

206. The Board of Auditors noted that there was a need for additional disclosures under the present accounting standards followed by the Fund's United Nations system accounting standards, as the Fund moved closer to adoption of international accounting standards. It was also noted that the planned implementation of new accounting standards under IPSAS had been postponed from 2010 to 2012. It was recommended that the implementation plan be finalized and that the Fund allocate resources to the project.

207. The Board of Auditors commented on the lack of adequate reconciliation of the general ledger and sub-ledgers and the potential weaknesses in control that would represent.

208. The Board of Auditors noted that the Fund had submitted its financial statements late. It further noted that the Fund had inadequate accounting policies and weaknesses in its financial statement preparation process.

209. It was noted that the Fund did not disclose details of funds under management from the United Nations University Endowment Fund and the United Nations Library. The Representative of the Secretary-General stated that additional information would be provided in the future, including possible ways to handle those entities whose investments the Investment Management Division was managing. The Board had a lengthy debate on the Division's mandate over the investments of those entities and requested clarification of the mandate and fees received.

210. The Board noted that the Fund did not have an accounting policy or mechanism to reflect impairment on the recovery of long-outstanding overpayments and observed that the provision for foreign tax receivable decreased by only 5 per cent compared to the prior biennium, indicating a low rate of recovery of long-outstanding foreign tax receivables.

211. The report of the Board of Auditors provided a progress report on the status of the 27 audit recommendations made during the biennium 2006-2007; 10 (37 per cent) were fully implemented; 15 (55 per cent) were under implementation; 1 (4 per cent) was not implemented; and 1 (4 per cent) was overtaken by events. Details of the status of implementation of those recommendations are shown in annex I to the report of the Board of Auditors.[1] The representative of a United Nations executive head commented on a template that would track the implementation of audit recommendations and offered to share that template with the Fund. The Representative of the Secretary-General noted that in February 2010, OIOS had listed the reasons for closing 37 out of 46 recommendations, leaving only 9 recommendations open, a significant number of closures in a short period of time.

212. The Board of Auditors noted that it had reviewed the scope of its planned audit activities by placing reliance on certain work performed by OIOS. Particularly, the Board sought to enhance its coverage of risk areas by reviewing the results of the audits of the investment management/compliance with internal policy and the financial reporting process.

213. The Board of Auditors also noted that it had worked closely with the Audit Committee on matters of common interest.

214. At the request of the Board, the Representative of the Secretary-General presented a detailed schedule to support the reconciliation of the net amounts set out in the financial reports. The Board noted that the realized losses for the biennium regarding the sale of investments totalled $2.7 billion. Those realized losses were offset by realized gains of $3.2 billion, resulting in the reported net profit on the sale of investments for the biennium, as presented in the financial statements of $412 million. The Representative of the Secretary-General further noted that losses were recognized when underperforming investment instruments were pruned from the portfolio, in keeping with prudent risk management and that such actions should be considered normal balancing of the portfolio.

215. **After considering the additional information, the Board accepted the report of the Board of Auditors and requested the CEO and the Representative of the Secretary-General to fully implement the recommendations of the Board**

[1] *Official Records of the General Assembly, Sixty-fifth Session, Supplement No. 5* (A/65/5), vol. I, chap. II.

of Auditors. Upon reviewing the additional clarification spreadsheet about the breakdown of realized/unrealized gains and losses, the Board expressed its satisfaction with the enhanced clarity of the information provided and concluded that the additional information put the realized losses in perspective. The Board recommended that more detailed disclosures be provided in the future.

Chapter VIII
Governance matters

A. Amended accountability statement

216. At its fifty-fifth session in 2008, the Pension Board reviewed the report of the Secretary/CEO on the Fund's staffing and organizational structure ("Whole Office Review"), which had been undertaken at its request. The Board noted that as part of the Review and for the first time, an accountability statement had been developed. The Board requested that "it be expanded to include all other activities of the Fund, such as investment of its assets".[2]

217. Therefore, the Secretary/CEO presented to the Board at its fifty-sixth session a comprehensive accountability statement for the Fund, which also considered the investment-related activities as provided by the Investment Management Division and the Representative of the Secretary-General for the Investments of the Fund.

218. It was recalled that the Board, taking note of the accountability statement prepared in coordination with the Representative of the Secretary-General and the Investment Management Division, had requested the Secretary/CEO to amend the document and to present a revised version for its consideration at its fifty-seventh session, including a number of proposed changes.

219. The Secretary/CEO presented the revised accountability statement for the Fund, considering all of the changes requested by the Pension Board during its fifty-sixth session.

220. The Board noted that the definition of accountability adopted by the document, in line with the one proposed by the Secretary-General of the United Nations in his report of 29 January 2010 (see A/64/640, para. 10), differs to some extent from the one eventually approved by the General Assembly. The proposed definition was, however, deemed to more appropriately reflect the profile and responsibilities of the Fund.

221. **The Board endorsed the revised document and requested that the definition of the critical role of the Fund's Chief Financial Officer fully reflect that the Officer will have dual reporting lines and will be responsible for the overall financial reporting process and the implementation of the IPSAS accounting standards.**

222. **The Board also requested that the deadline for the preparation and presentation of the budget be revised to 15 April of the year preceding the start of the biennium.**

B. Size and composition of the Pension Board and the Standing Committee

223. In 2002, in section VII of its resolution 57/286, the General Assembly requested the Pension Board "to study the representation of the Fund's member organizations on the Board, so as to clarify the criteria adopted for that purpose, and

[2] Ibid., *Fifty-fifth Session, Supplement No. 9* (A/63/9), para. 12 (h).

to submit further proposals to the General Assembly at its fifty-ninth session, with a view to making such representation more equitable in order to reflect the actual distribution of active participants in the Fund, present and future trends in Fund participation, the changing nature of the Fund's member organizations and improved participation by members and alternate members in the Committee and Board meetings".

224. In 2003, the Standing Committee established a working group to undertake a review of the size and composition of the Pension Board and its Standing Committee. In 2006, the Working Group concluded its work and presented its report to the Pension Board at its fifty-fourth session. After discussion of that report of the Working Group in 2006, the Pension Board concluded the following:

(a) The Board decided to retain its current size and composition;

(b) The Board adopted four changes with the goal of improving efficiency, effectiveness and working methods; and

(c) The Board recognized that its decision to retain its current size did not fully respond to General Assembly resolution 57/286, since it did not address the low proportionate representation of the United Nations, as discussed in the 2006 report of the Working Group.

225. **After discussion, the Board requested the Fund secretariat to provide a report for its next session in 2011 regarding its size and composition, its working methods and effectiveness, including financial implications, along with draft terms of reference for a possible working group to be considered in the future. It was noted that the results of its own self-evaluation, to be completed and analysed before the next session, would provide a useful reference when reviewing the matter in 2011.** (Annexes XI and XII reflect the size and composition of the Board and its Standing Committee; and annexes XIII and XIV reflect the allocation and rotation of Board and Standing Committee seats for sessions held after 2006.)

C. Report of the Working Group on Plan Design

226. During its fifty-fifth session, held in Rome from 10 to 18 July 2008, the United Nations Joint Staff Pension Board considered a note which referred to various proposals for changes in the benefit provisions of the Fund advanced during the last several sessions of the Board and the diverse views concerning such changes maintained by different constituents of the Board. In order to examine and prioritize in a more integrated and comprehensive manner the proposals being advanced, the Board decided to establish a working group, which was tasked with providing specific proposals that could help to guide the Board over the next several years.

227. The Board agreed on terms of reference that requested the Working Group to: (a) assess the major developments to be taken into account in defining the future needs of the Fund; (b) examine the remaining economy measures adopted since 1983 but not yet addressed, as well as any additional measures that had been under recent consideration by the Board and/or that might arise from the assessment referred to in (a) above; and (c) formulate and prioritize proposals to meet the future long-term needs of the Fund and its constituent groups.

228. The Working Group recognized three major developments, namely: (a) the significant volatility in the market value of the assets of the Fund since the actuarial valuation of 31 December 2007; (b) the continuing increase in life expectancy of individuals covered by the Fund with its adverse impact on the actuarial valuation carried out as at 31 December 2007; and (c) the worldwide trends in pension reform. In addition to those three developments, the Group took into account the needs of staff with shorter careers and workforce mobility. The Group also recognized the significant and unprecedented growth in the number of individuals serviced by the Fund since 1998, along with the increasing challenges associated with administering such a vast, growing and globally dispersed population.

229. As provided for in its terms of reference, the Group used the report of the 2000 Working Group as its starting point. The Working Group also recalled that it had been requested to continue to consider issues aimed at enhancing the mobility of staff and the portability of pensions. In addition, and while carrying out its work, the Group was mindful of the principles suggested in the report of the Committee of Actuaries relating to: income replacement, long-term solvency, intra- and inter-generational equity, cost control and stability, simplicity of administration and reduction of risks. The Group also remained cognizant of five relevant General Assembly resolutions (i.e., 53/210 of 1998, 55/224 of 2000, 57/286 of 2002, 59/269 of 2004 and 61/240 of 2006).

230. On the basis of the various briefings received by the Working Group and its assessment of the recent developments, including significant volatility in the market value of the assets of the Fund, the improved mortality rates and other trends, the Group considered a long list of general topics and possible measures that could be proposed in order to address the long-term needs of the Fund. A summary of the Group's initial consideration of this wide range of issues was provided to the Board in 2009. The Working Group requested the consulting actuary to provide comments and/or actuarial cost/savings estimates in respect of those issues the Group had agreed would merit a more focused analysis. The specific questions posed by the Group on those issues and the replies provided by the consulting actuary are set forth in the Working Group's report.

231. Following several discussions with the consulting actuary, the Working Group decided to narrow its focus to specific measures that could be taken with the aim of meeting the long-term needs of the Fund, consistent with its mandate, and also taking into account the views expressed during the fifty-sixth session of the Board in 2009. The Group aimed to provide specific proposals that would be most relevant to the Board over the next several years, reflecting emerging trends and anticipated challenges. A detailed analysis of specific measures that could be taken is also reflected in the Working Group's report.

232. In respect of benefits, and as mandated in its terms of reference, the Group felt that the balance of the 2002 recommendations continued to deserve special consideration, having already been agreed to by the Board and approved, in principle, by the General Assembly. The Group also extensively examined several other issues which could lead to possible changes in the plan design, including the accumulation rates, withdrawal settlements for participants with shorter-term contributory service and a possible reduction in the vesting period.

233. The Working Group also considered possible measures that would result in actuarial savings. It had extensive discussions on the normal retirement age

provision, and the early retirement age and reduction factors. The Working Group, also as a matter of principle, considered the eligibility period under article 21 of the Regulations of the Fund. It agreed that, in principle, amendments to current practice in all those areas could be beneficial to the Fund.

234. In addition, the Working Group reviewed a number of possible amendments that would involve minimal actuarial costs. Those measures related to survivor benefits under articles 35 bis and 35 ter and child's benefits under article 36 of the Fund's Regulations. Further consideration was also given to possible amendments to certain provisions of the pension adjustment system.

235. At the time of adoption of its final report, the results of the actuarial valuation as at 31 December 2009 were not available to the Working Group. The Group nevertheless felt that since it had been requested to "provide specific proposals that could help guide the Board over the next several years", it would make proposals that could be further considered for implementation on the basis of different circumstances and time frames. In other words, when taken together the Working Group proposals would provide the Board with a "flexible road map" that was intended to assist the Board in making timely and appropriate decisions with respect to the plan design of the Fund.

236. The proposals and conclusions of the Working Group on Plan Design are reflected in table 8 below. The paragraph numbers in square brackets refer to the relevant text that substantiates the Group's preferred options, as contained in the final report of the Working Group. It was noted that the measures listed included the two measures already approved by the Board and also approved in principle by the General Assembly, which the Group felt belonged to a special group of measures that should be given priority consideration by the Board.

Table 8

(a) Measures involving a cost which should be implemented as soon as feasible:

- Amended withdrawal settlements for short-term staff (estimated actuarial cost of 0.12 per cent of pensionable remuneration) [paras. 108-113]*
- Four amendments to article 35 bis (costs assumed to be minimal) [paras. 166-173]
- Pension adjustment system: elimination of negative cost-of-living adjustments (measure not costed but assumed to be minimal) [para. 198]

(b) Measure with a cost which remains desirable:

- Accumulation rate (partial and progressive return to pre-1983 rates) would carry a lower cost than full reversion (full reversion at an estimated actuarial cost of 2.16 per cent of pensionable remuneration) [paras. 102-107]

(c) Measures which would produce gains:

- Reduction in the eligibility period for participation from 6 months to 60 days (gains not determined, should be implemented as soon as feasible) [paras. 162-164]
- Increase in the early retirement reduction factors (estimated actuarial savings of 0.14 per cent of pensionable remuneration) [paras. 153-161]
- Increase in the normal retirement age to 65 (estimated actuarial savings of approximately 1.00 per cent of pensionable remuneration) [paras. 130-152]

(d) Studies to be carried out immediately:

- Study on enhancing the scope and flexibility in administering the Emergency Fund [para. 199]
- Study by the consulting actuary on early retirement provisions [paras. 153-161]

(e) Measures already approved by the Board, and approved in principle by the General Assembly, for priority consideration by the Board:

- Cost-of-living adjustment for deferred retirement benefits commencing as of age 50 (estimated actuarial costs of 0.36 per cent of pensionable remuneration) [paras. 114-120]
- Elimination of the 0.5 per cent reduction of the first adjustment due after retirement (estimated actuarial costs of 0.15 per cent of pensionable remuneration) [paras. 121-129]

The above proposals were submitted without conditional linkages between them and carry their own time frame for implementation.

* Paragraphs referenced are from the Report of the Working Group.

237. In preparing its final report, the Working Group referred to its extensive consultations with the consulting actuary. It also noted that its conclusions and proposals were reached essentially on the basis of the information and actuarial cost/saving estimates made available as part of those consultations. As requested by the Board, the views of the Committee of Actuaries on the conclusions and proposals of the Working Group are included in full in the final report of the Working Group. A summary of the views expressed by the Committee is provided below:

- The Committee of Actuaries took note of the comprehensive report of the Working Group on Plan Design and welcomed the useful presentation provided by the Chairman of the Working Group and the representative of

FAFICS thereto. It commended the Group for the scope and depth of the report, which was intended as a flexible road map to the Board over the next several years. The Committee also recognized the merit of the report, which examined cost estimates provided by the consulting actuary for possible changes to the Regulations of the Fund that were considered by the Working Group. The Committee also noted with satisfaction that the Working Group had carried out its work mindful of the principles the Committee had suggested to the Board relating to: income replacement, long-term solvency, intra- and inter-generational equity, cost control and stability, simplicity of administration and reduction of risks.

- The Committee noted, in particular, the importance of increasing the normal retirement age provision. Given the serious impact that increased longevity had had on the results of the actuarial valuations, the Committee agreed that increasing the normal retirement age should be a top priority for the consideration of the Board. The Committee stressed, as a fundamental requirement, the need to consider the issue in the context of ensuring the solvency and long-term sustainability of the Fund.

- The Committee recognized that the results of the regular actuarial valuation as at 31 December 2009, which revealed a long-term contribution deficiency of 0.38 per cent of pensionable remuneration and a lower funding ratio, had not been available to the Working Group during the formulation of the Group's conclusions. The Committee also noted comments by the consulting actuary concerning the market value of the assets of the Fund, which was below expectations, and agreed that given the continued volatility in the markets since the previous actuarial valuation, it would be advisable to await the results of the 31 December 2011 valuation before considering any significant changes in the plan design of the Fund.

- The Committee recalled its long-held view that — although recognizing the merits of several of the proposals submitted by the Working Group — the Fund should maintain an appropriate safety margin of about 1.00 to 2.00 per cent of pensionable remuneration before using funds to reverse previous economy measures and/or to introduce other amendments that would result in improved benefits. In comments concerning possible benefit enhancements with minimal costs, the consulting actuary cautioned that although such measures when taken individually would have minimal or negligible costs, if taken together, they could have a significant impact on the actuarial valuation results. The Committee further recalled that several measures with negligible costs had been approved by the Board over its last few sessions. Given the actuarial deficit revealed in the valuation as at 31 December 2009 and the continued volatility in the markets, the Committee suggested that the Board consider deferring any measure that would incur additional costs.

- Concerning the question of actuarial deficits, the Committee agreed with the Working Group that one deficit should not be considered as constituting a trend and that cost-saving measures should not therefore be considered necessary on the basis of one actuarial deficit. The Committee further suggested a deficit threshold in the range of about 1.00 to 2.00 per cent before implementing economy measures as a corollary of the similar caution to be applied in relation to a surplus.

- The comments of the Committee of Actuaries on the specific measures proposed by the Working Group as its preferred options under different scenarios and circumstances are reflected fully in the Working Group's report.

238. The Board took note that the Working Group had concluded that increasing the normal retirement age to 65 would be beneficial to the Fund by yielding actuarial savings in the order of 1.00 per cent of pensionable remuneration. The Working Group had also noted that increasing the mandatory age of separation without changing the normal retirement age could generate savings in the range of between 0.11 to 0.33 per cent of pensionable remuneration, if the option would apply to all participants and assuming utilization rates of between 25 and 75 per cent, respectively.

239. Before the Board concluded its discussion on the retirement age, it was noted that an increase in the normal retirement age to 65 would yield a rather modest actuarial savings of about 1.00 per cent of pensionable remuneration and that the normal retirement age should be maintained as a potential tool that should only be increased to address serious financial difficulties that were not currently evident in the Fund's last actuarial valuations. It was further noted that in the event a trend of deficits was revealed, the Board should be prepared to pronounce itself on the need for an increase in the normal retirement age to 65 together with other possible measures aimed at bringing the Fund into actuarial balance. At the same time, however, it was also recognized that raising the normal retirement age would represent a significant change in the pension benefit provisions since those staff affected by the new provision on the retirement age would not be entitled to a full pension benefit until age 65.

240. Other members noted that, as indicated in the report of the Working Group, the General Assembly had endorsed the recommendation of the Advisory Committee on Administrative and Budgetary Questions that the Secretary-General and ICSC should explore the possibility of changing the mandatory age of separation, taking into account such issues as the rejuvenation of the Secretariat, vacancy rates and the actuarial implications of that course of action for the Pension Fund. The Assembly, also in its resolution 64/231 on the United Nations common system, requested the Commission to report to the Assembly at its sixty-sixth session, in 2011, on the results of the comprehensive analysis of the possibility of changing the mandatory age of separation, including the implications in the areas of human resources policies and pensions. It was further noted that the General Assembly and ICSC would therefore be awaiting the views of the Pension Board on the issue of the normal retirement age, which should be seen in the light of the social and demographic trends, including the notable improvements in life expectancy.

241. Other members noted, and welcomed, the focus that the Working Group gave to the shorter-term staff, especially those who did not have the opportunity to serve five years or more. Given the deficit revealed in the latest valuation, it was recognized that the circumstances might not be right to address those needs. It was stressed, however, that the Board should not lose sight of the needs of those staff members and that the preferred options proposed by the Working Group would be kept in mind when the results of the next actuarial valuations were considered.

Conclusion of the Board

242. **The Board held extensive discussions in consideration of the conclusions and preferred options that were identified by the Working Group. The Board expressed its appreciation for the scope and depth of the report, which it agreed would help to guide the Board during its future deliberations on plan design issues over the next 5 to 10 years. The Board agreed that the report should be a Fund publication. It requested that it be made available to all members and other representatives to the Board in 2011.**

243. **The Board agreed that the studies proposed by the Working Group should be carried out by the secretariat of the Fund on the possibility of enhancing the scope and flexibility in administering the Emergency Fund, and another would be carried out by the consulting actuary on the early retirement provisions, including the early retirement reduction factors. The Board also requested an estimate of the cost of eliminating the negative cost-of-living adjustments.**

244. **The Board recalled that it had approved the restoration of the two economy measures effective since the early 1980s which had been approved in principle by the General Assembly, namely: (a) the elimination of the 0.5 per cent reduction in the first adjustment due after retirement, and (b) the commencement of cost-of-living adjustments for deferred benefits as from age 50. The Board agreed with the Working Group that those two measures should continue to be a priority for consideration by the Board.**

245. **The Board noted that increasing the normal age of retirement to 65 would yield actuarial savings, partially offsetting the actuarial costs that had arisen from the increased longevity of participants, as reflected in the mortality tables recently incorporated into the actuarial valuation. The Board also acknowledged that changes in the early retirement reductions factors could realize actuarial savings. It further noted that an increase in normal retirement age should be done in coordination with the human resources policies of member organizations on the mandatory age of separation. The Board invited ICSC to consider the Pension Board's observations regarding those matters.**

246. **The Board agreed that the report of the Working Group maintained a long-term view on the sustainability of the Fund, and as such it would serve as an important reference and invaluable tool to the Board for years to come.**

247. **The Board also expressed its greatest appreciation to the Chairman of the Working Group for his untiring efforts in facilitating the conclusions and decisions of the Group, which the Board recognized would not have been possible without the scope and depth of his institutional knowledge of the Fund. The Board also thanked the members of the Group for all the time and extra efforts they had put forth in a most challenging undertaking.**

D. Proposed job description for the next Chief Executive Officer

248. Since the term of the current CEO expires on 31 December 2012, the Pension Board decided at its fifty-sixth session in July 2009 to start the recruitment process in advance of that date. Therefore, the Board established a Search Committee comprised of representatives of the executive heads, the governing bodies, the participants and the Fund's retirees.

249. The Search Committee selected Pierre Sayour as its Chairman, and Mr. Thomas Repasch as its Rapporteur. It was also agreed that the current CEO would act as Secretary to the Committee.

250. During its discussions, held through e-mails and videoconference, the Committee was mindful of the following issues:

(a) Transparency concerning the role of the CEO regarding investment activities. In this respect, the Search Committee agreed to include the following language concerning the bifurcated structure of the Fund under the organizational setting section of the job description:

> "The CEO is responsible for the administration of the Pension Fund. Responsibility for investment of the assets is entrusted to the Secretary-General of the United Nations, who has delegated this responsibility to the Representative of the Secretary-General for the Investments of the Fund."
>
> "Although responsibility for managing the Pension Fund's investments lies with the Secretary-General of the United Nations and his delegated official, the CEO is responsible for providing a range of administrative functions to ensure the smooth functioning of the Investment Management Division."

(b) In the job description, the Search Committee clearly differentiated between the position's duality of functions as CEO of the Fund, which encompassed the wider scope of responsibilities, and the position's role as Secretary of the Pension Board.

(c) Noting that, in accordance with the Fund's Regulations, the CEO of the Fund also acts as Secretary of the United Nations Staff Pension Committee, the Search Committee discussed whether that could give rise to a conflict of interest. The members of the Committee agreed that that role did not present a conflict of interest situation, but could carry the appearance of a conflict of interest. After considering the issue, in particular the possibility for the CEO to delegate his authority as necessary, the Committee felt that no change was required at that time.

(d) Concerning the CEO's performance objectives and the related indicators, the Committee believed that it would be premature to decide on objectives for 2013 and beyond at the present time. It decided to consider them at a later stage and to make a proposal to the Board at its 2012 session. A proposal will also be made concerning the evaluation process. Therefore, the Committee focused its attention on relevant issues for the competency-based interview of the next CEO.

(e) The Committee considered that the CEO is expected to maintain relationships outside the Pension Fund, as necessary, with government representatives of all the organizations members of the Fund, senior administration officials, including the heads of organizations, participants' representatives and representatives of international retiree associations, as well as with individual participants and beneficiaries of the Pension Fund.

(f) The Committee also took into consideration the important communication and public outreach functions of the CEO. It concluded that knowledge of two of the working languages of the United Nations and other organizations members of the Fund would greatly enhance relationships with

participants and beneficiaries who come from different cultural and linguistic environments.

251. During its discussion of the report, members of the Board commented on the need for the Search Committee to establish procedures for the receipt of applications and screening of candidates. They also suggested that consideration be given to include comparable professional experience under experience requirements, and that emphasis be put on servicing the stakeholders. It was suggested that the duration of the contract be mentioned in the vacancy announcement, as well as the fact that short-listed candidates would be requested to provide a presentation to the Board as part of the selection process.

252. **The Pension Board expressed its appreciation to the Search Committee and requested that a revised job description be submitted to the Board at its next session in 2011.**

253. **The Pension Board also agreed with the Committee's proposed programme of work and timeline for 2011 and 2012. The programme of work includes the circulation of the vacancy announcement, interview of candidates, and preparation of a shortlist of suitable candidates to be included in the Committee's report (by mid-May 2012) for presentation to the Pension Board in July 2012. In addition, the Committee will develop proposals for the CEO's performance objectives and the related indicators, as well as the evaluation process for the CEO and mechanisms for enhancing performance. The Board also will consider the possible conflict of interest between the CEO and Secretary of the United Nations Staff Pension Committee at its session in 2011.**

E. Self-evaluation by the Board

254. The Secretary/CEO introduced the document on self-evaluation of the Board and noted that a periodic evaluation policy was considered to be part of good governance. He explained that the purpose of the evaluation was to determine how effectively the Board and its committees were functioning and to determine if the Board was living up to its fiduciary responsibilities to its stakeholders. More specifically, the Board self-evaluation exercise was primarily meant to help to assess whether the Board as a whole and its individual members were lacking any critical skills. Furthermore, the evaluation could also be used to determine whether the Board was making efficient use of its time. The scope of self-evaluation would cover, among other things, the role of the Pension Board, Board membership, working practice and procedures, as well as collaboration and style.

255. As a follow-up to a pending audit recommendation from the governance audit, in which OIOS had requested the Board to introduce an internal mechanism for evaluating performance of the Board and its committees, the Audit Committee had recommended in 2009 that the secretariat prepare a survey questionnaire for the 2010 session of the Board, which would measure, among other things, the results achieved by the Board, proper follow-up of issues, accountability, and organizational matters. The Audit Committee had reviewed the questionnaire and noted that its completion was to be seen as an initial step in establishing and maintaining the best practice of a regular cycle of performance evaluation.

256. **The Board approved a self-evaluation questionnaire which had been developed in consultation with OIOS.** All Board members were encouraged to complete the self-evaluation questionnaire at the end of the fifty-seventh session and return it to the secretariat to prepare a summary of the results. The Chairman would finalize, and present a report on, the Board's self-evaluation and recommendations for the consideration of the Board at its next session in 2011. The Board approved the utilization, in the future, of a web-enabled, electronic questionnaire to facilitate the collection and analysis of responses, which would also guarantee the confidentiality of the responses.

F. Term of appointment of the Deputy CEO/Deputy Secretary

257. The representatives of the ILO Participants presented a note requesting that the Pension Board reconsider its decision with regard to the specific term limit for the appointment of the Deputy CEO. It was recalled that at its July 2009 session, the Pension Board had decided to establish in its rules of procedure a five-year term for the appointment of the Deputy CEO with one additional reappointment.

258. The ILO Participants' representatives noted that there was no term limit established at the United Nations for D-2 staff and that the post of Deputy CEO was technical in nature. Further, it was highlighted that any mobility requirements which could be decided by the Secretary-General of the United Nations could expose the Fund to a loss of expertise that would be difficult to replace within the United Nations system. Many Board members recalled that the Pension Fund was an inter-agency body with 23 member organizations which, since inception, had been making use of the United Nations "machinery" for its staff contractual arrangements and other services such as procurement, without necessarily following all United Nations policies when, in the interest of the Fund, its requirements needed to take precedence.

259. The Board had lengthy discussions on this matter. During its discussions, it was recalled that the Board had decided at its fifty-fifth session in 2008 to recommend to the Secretary-General of the United Nations the reappointment of the incumbent Deputy CEO for a five-year term commencing on 1 January 2009. However, the Secretary-General decided to reappoint the Deputy CEO for a three-year term only, which commenced on 1 January 2009, with the possibility of a further two-year extension.

260. **In concluding its discussion, the Board decided to request the Secretary/CEO to meet with the Secretary-General to inform him of the Board's renewed recommendation that the appointment of the Deputy CEO of the Pension Fund be for a full five-year term by granting a two-year extension (ending 31 December 2013). The Board also confirmed that at the end of such two-year extension, the two five-year terms that the Board adopted during its fifty-sixth session in the new section F of its rules of procedure would apply.**

261. **Furthermore, the Board requested the Secretary/CEO to prepare an information note regarding the specific status of the Pension Fund and the special administrative arrangement between the Pension Fund and the United Nations and discuss that with the Secretary-General. The Board decided to review that matter at its next session in July 2011.**

Chapter IX
Benefit provisions of the Fund

A. Proposed amendments to the Regulations and Rules of the Fund: provision to allow contributions for part-time staff

262. The Staff Pension Committee of IAEA introduced a document in which the Committee proposed that the current Regulations of the Fund be amended so that participants who previously had been in full-time employment were given an option, upon moving to part-time, to continue to contribute to the Pension Fund as if they were employed on a full-time basis by paying the relevant additional contributions (both the employer's and the employee's share). The difference between the actual part-time employment and full-time employment would be treated for the purpose of additional contributions as if it was a period of leave without pay.

263. The Board recalled that it had considered the matter for the first time in 2004. In 2008, the Pension Board had approved a similar proposal made by the Staff Pension Committee of IAEA; however, the Advisory Committee on Administrative and Budgetary Questions had recommended against the approval of the Board's recommendation (see A/63/556, para. 20). Subsequently, the General Assembly endorsed the decision of the Advisory Committee (see resolution 63/252).

264. **The Board decided that the measure should be adopted for reasons of fairness and flexibility, as well as to demonstrate the Fund's sensitivity to gender issues, given that the majority of part-time staff in the member organizations were female. The Board further observed that the amendment had been reformulated to meet the concerns of the Advisory Committee on Administrative and Budgetary Questions by ensuring parity for part-time staff who had been hired on full-time employment status, and later converted to part-time status, and providing that the amendments be formulated to include the same constraints that applied to periods of leave without pay for full-time staff.**

265. **The Board approved the following changes to its current Regulations and Administrative Rules, with deletions appearing in brackets.**

Supplementary article A

PART-TIME EMPLOYMENT

(a) The provisions of these Regulations and of the Administrative Rules shall apply equally to members of the staff of each member organization whose employment is for at least half the time of full-time members of the staff [, except that:].

(b) The entitlement to and the amount of benefits resulting from [such] **part-time** employment shall be reduced in the ratio which it bears to full employment; [; and] **unless additional contributions are made in accordance with (c) below.**

(c) **The percentage difference between the minimum part-time employment referred to in (a) above and full-time employment of a participant who, without interruption in service, moves from full-time employment to part-time employment, shall be treated as a period of leave without pay within the**

meaning of article 22 (b) of the Regulations if corresponding contributions are received by the Fund, in accordance with article 25, for the percentage difference between the actual part-time employment and full-time employment. The period during which such concurrent additional contributions can be made shall not exceed a period of three years during the participant's total contributory service for all periods of participation.

(d) [Such] **part-time** employment prior to 1 January 1975 shall not be open to validation or be taken into account for any other purpose.

SECTION G

LEAVE WITHOUT PAY **AND PART-TIME EMPLOYMENT**

G.1 A participant who wishes contributory service to accrue in terms of article 22 (b) of the Regulations in respect of leave without pay **or a period of part-time employment as provided in supplementary article A** shall make arrangements with the member organization by which he or she is employed for the full contributions to be remitted to the Fund concurrently with such leave **or period of part-time employment** in the same manner as contributions due in respect of a participant in **full** pay status.

[...]

G.8 The provisions of supplementary article A concerning concurrent contributions in respect of periods of part-time employment shall apply as of 1 January 2011. The maximum period of concurrent contribution in supplementary article A (c) shall start running as of 1 January 2011 in respect of any eligible participant. Eligible participants who are already on part-time employment on 1 January 2011 may equally pay additional concurrent contributions in respect of the difference between the actual part-time employment and full-time employment, as of that date.

B. Consideration of solution(s) to address wide fluctuations in local currency track benefits of Professional staff

266. In 2007, the Board requested the Fund to carry out three separate reviews with respect to the impact of currency fluctuations on pension benefits of the Fund for its consideration in 2008. The main focus of the Board's review of the three studies in 2008 was on the impact of a declining United States dollar on the local currency track pensions of separating Professional staff. That review revealed two issues in respect of those retiring from the Professional category, namely: (a) the continued, but moderating, downward trend in local currency track amounts that could reach a point whereby action might be required; and (b) the wide variations in local currency track amounts for those separating from 2002-2005. After recognizing the importance of the wide variations, owing to different dates of separation, it was concluded at that time that the 120-month average rate approach would best address the issue. The Board recognized that in order to move more smoothly from 36-month average rates to 120-month average rates, it would also need to decide on the most appropriate transition period. It was recalled, however, that when the 120-month average rate option was last considered, the Board was unable to reach

agreement, in large part, owing to the actuarial costs (most recently estimated at 0.63 per cent of pensionable remuneration), which would have moved the Fund into an actuarial deficit at that time.

267. It was with that in mind that the Board decided, in 2009, to request the CEO to present a report in 2010 with a recommendation on one or more actuarially costed solutions, including a cost-neutral solution that would mitigate wide fluctuations in the income replacement ratios in the future. The current review therefore examined other options that had not been considered in 2008, revisited options that were considered in 2008 and explored areas where savings could be achieved to offset the costs of adopting the 120-month average rate approach, including the possibility of a package of measures that would provide close to a cost-neutral solution.

268. As reflected in the report considered by the Board, the CEO was of the view that should the Board decide to move to the 120-month average rate without increasing costs, savings should be sought from within the provisions of the two-track feature. In other words, it would not appear appropriate to reduce the entitlements (or withhold possible future enhancements) for all participants, retirees and other beneficiaries in order to finance further improvements under the two-track feature, when not all of those covered by the Fund would have the opportunity to benefit.

269. Therefore, in order to respond to the request for a cost-neutral solution, four possible areas were analysed where savings could be found from within the provisions of the two-track feature, namely: (a) a possible increase in the threshold for application of the cost-of-living differential factor, with estimated savings in the range of 0.11 to 0.33 per cent of pensionable remuneration; (b) possible elimination of the comparative provision for all those who opt, or have opted, to be paid under the two-track feature, with estimated savings in the range of 0.15 to 0.20 per cent of pensionable remuneration; (c) possible elimination of the comparative provision for those from the General Service and other locally recruited categories, with savings that would be less than the range estimated in respect of all categories of staff; and (d) possible increase in the threshold or elimination of the provision for cost-of-living differential factors for the General Service category, which would provide some small, but currently unquantifiable, savings. It was recognized that the selection of any one or more of those four options would certainly be a difficult decision, as each would involve the elimination of certain protections that had been built into the system over the last 30 years.

270. The Board considered whether the estimated range of savings, which could be provided from within the provisions of the two-track feature through some combination of the four measures considered above, would be acceptable. It also considered whether such savings would be adequate to justify the adoption of the 120-month average option at an estimated actuarial cost of 0.63 per cent of pensionable remuneration.

271. As the above measures (including any combination thereof) appeared to be inadequate to fully offset the estimated costs of adopting the 120-month average rate approach, and given that a deficit was revealed in the latest actuarial valuation, the possibility of a package was also explored. The packages considered would include a cost-savings measure from outside the provisions of the two-track feature. If taken together, such a package could produce a result that would be within close range of the required savings of 0.63 per cent of pensionable remuneration.

272. While a cost-neutral solution would be desirable, it was stressed that for the reasons explained in the report, the packages considered would not be in the best interests of the Fund, nor would they be in the interests of all its participants, retirees and other beneficiaries. While savings could be sought from outside the two-track feature (such as lower accumulation rates and/or increases in the early retirement reduction factors), the most appropriate savings should come from within the two-track provisions. It was found, however, that any such savings would lessen the important safeguards that had been built up over 30 years to protect benefits in local currency terms.

273. The Committee of Actuaries was also requested to provide its views with respect to the review carried out, taking into account the recent valuation results, which revealed a deficit of 0.38 per cent of pensionable remuneration. Recognizing the desirability of finding a cost-neutral approach, the Committee of Actuaries agreed with the findings of the CEO that protection provided in respect of the targeted income replacement ratios at the lower levels should not be forfeited in order to mitigate the potential for variations. It was also the Committee's view that the two-track feature costs should not be increased above the current level (i.e., 1.90 per cent of pensionable remuneration), especially given that most retirees and other beneficiaries did not find it advantageous to elect that option. The Committee concluded, however, that it was ultimately for the Board to provide its guidance as to whether it would accept increases in the cost of the two-track feature and, if so, up to which level. Moreover, given the extensive complexities and associated risks of the current two-track system, the Committee would recommend that the Board consider a new system for mitigating the impact of currency fluctuations on Fund pensions, reflecting the guiding principles endorsed by the Committee of Actuaries.

274. Welcoming the note prepared by the Secretary/CEO for the fifty-seventh session of the Board concerning possible solution(s) to address wide fluctuations in local currency track benefits of Professional staff, the Board took note that: (a) the various interim reports presented by the Secretary/CEO to the Board since its fifty-sixth session regarding fluctuations in local currency track benefits of Professional staff had not indicated that fluctuations in local currency track benefits were imminently threatening to result in substantial disparities in income replacement values among retirees; (b) on the basis of his extensive reviews, the Secretary/CEO had determined that changing from the approach of a 36-month to a 120-month average exchange rate applied at the time of retirement would best resolve the issue; and (c) such a change from a 36-month to a 120-month average exchange rate approach was not warranted at that time. It was recalled that another solution had been suggested in the past in which the Fund might use the best 36 months of the last 120 months to establish the local currency track amounts under the two-track feature of the pension adjustment system. The Board noted that that could be further explored in the future as a possible approach to establish the local currency track pension amounts for those retiring in countries with "softer" currencies.

Conclusion of the Board

275. **Based on the foregoing observations, the Board confirmed that the preferred current solution to address wide fluctuations in local currency track benefits of Professional staff would be changing from the current approach of a 36-month average exchange rate applied at the time of retirement to a 120-month average exchange rate. However, given the actuarial costs of**

implementing such a change, the Board requested that the Secretary/CEO continue to monitor the fluctuations in local currency track benefits and report thereon to the Board on an annual basis. Further, the Board concluded that any change to the averaging approach would be subject to a further decision by the Board to be taken based on, inter alia, (a) whether actuarial implications of implementing such a change would be acceptable with respect to the long-term funded position of the Fund, and (b) whether the costs of failing to implement such a change would result in costs to the Fund outweighing the costs of implementing such a change.

C. Amendment to suspend the special index

276. In 2007, the Board requested the Fund to carry out three separate reviews with respect to the impact of currency fluctuations on the Fund's pension benefits. The main focus of the Board's consideration of the three studies in 2008 was on the impact of a declining United States dollar on the local currency track pensions of Professional staff. The review in respect of Professional staff revealed two issues that would require the attention of the Board, namely: (a) the wide variations in local currency track pensions for those separating between 2002 and 2005, and (b) the continued, but moderating, downward trend in local currency track benefits for those separating after 2005. Given that it would be difficult to project what the situation would be one year later, especially as several unpredictable variables would need to be taken into account, the Board decided to request the secretariat to monitor the situation and to report on the issue during its session in 2009.

277. In the context of the monitoring exercise carried out in 2009, it was noted that the "special index" might become applicable again in more instances. As a result, a further review was carried out on the overall methodology used to determine the special index. It was noted that for benefits established since 1996, when the Board last considered the special index, the provision had been rarely applicable and, when applicable, it was often overtaken by the United States dollar track amount. As reflected in the 2009 report, however, it was found that there were a number of elements in the special index provision that resulted not only in technical inconsistencies but in conceptual deficiencies as well.

278. Under the circumstances presented to the Board in 2009, the CEO recommended the suspension of the special index provision. The recommendation was made in the light of the conceptual deficiencies and the detailed rationale that had been identified during the monitoring exercise carried out to assess the impact of currency fluctuations on the local currency track pension amounts payable under the two-track feature of the adjustment system. However, given that the General Assembly normally considered pension items in even-numbered years, the Board agreed to defer its decision on the matter until its session in 2010. The Board also requested the CEO to present, in 2010, a text for an amendment that would give effect to the suspension of the provision (contained in annex XVII).

279. The Board recalled that the overall review focused on six countries where about 80 per cent of the two-track cases were being paid. The three cases in respect of France, Italy and Austria were all similar, as each involved the relationship between the United States dollar and the euro, there was no cost-of-living differential factor and no special index applicable. In the cases of Switzerland, the

United Kingdom of Great Britain and Northern Ireland and Japan, however, each needed to be analysed separately from the euro countries reviewed, as those countries involved different exchange rate relationships vis-à-vis the United States dollar, as well as application of the cost-of-living differential factor and the special index during certain periods. Graphs were also provided to the Board, which reflected the impact of the special index on the respective income replacement ratios for the first time.

280. Following the decision taken during the 2008 session of the Board, which included a request for the continued monitoring of the respective income replacement ratios, and after having further reviewed the situation as it has evolved since then, the Board found that:

- Certain deficiencies were apparent in the criteria used in determining and applying the special index, some of which had been recognized previously by the Board and ICSC but had not been addressed.
- Application of the special index results in the reduction of benefits that are often already below the targeted income replacement rate.
- The local currency track amounts, in the cases examined where the cost-of-living differential factor and the special index were applicable, would be closer to the targeted income replacement rate if there was no application of the special index provision.

281. Previous discussions and decisions on this matter were presented to the Board. More importantly, however, during the review the CEO identified a number of elements in the special index provision that resulted not only in technical inconsistencies but also gave rise to conceptual deficiencies that should be addressed. More specifically:

(a) The downward adjustment in the cost-of-living differential factor, inherent in the special index provision, *applies* to those pension amounts at the lower range (i.e., with lower income replacement ratios) but *does not* apply to those pension amounts at the higher range (i.e., with higher income replacement ratios), which have been determined on the basis of high 36-month average exchange rates (United States dollar to local currency), but without application of the cost-of-living differential factor;

(b) The special index recognizes tax implications for Fund benefits payable in low tax countries by applying a downward adjustment but *does not* recognize tax implications for Fund benefits payable in high tax countries;

(c) The special index, which is determined once a year in December and applied on the date of retirement, is not adjusted to take into account revised tax brackets and/or new tax laws that may be adopted after the retirement date; the adjustments made on the date of retirement will therefore be considered inappropriate over time, since tax laws change over time;

(d) The provisions of the special index do not address the fact that there are in some cases different tax obligations for different nationalities residing within the same given country; nor does it address the fact that in some countries a portion of the Fund's benefit is excluded from taxation;

(e) The special index is based on the tax rate applicable with respect to pensions paid by the Fund but does not reflect other outside income if and when applicable;

(f) The special index is applicable to Professional staff but not to General Service staff.

282. Although the technical inconsistencies could be addressed, it was concluded that the conceptual deficiencies would be irreconcilable. More specifically, any attempt to address the conceptual deficiencies could result in a further addition to an already exceedingly complex system.

283. The Board recalled that a number of the technical inconsistencies and conceptual concerns relating to the special index had been expressed in the past but never addressed. It was noted in the Board's 1996 annual report to the General Assembly that:

> At its March 1996 meeting, the Standing Committee considered the special index on the basis of a document prepared by the ICSC secretariat, in close cooperation with the Fund's secretariat. Several representatives from the Vienna-based organizations expressed disappointment that the document had reviewed the technical aspects of the construction and application of the special index for pensioners, but had not included an examination of conceptual issues. They also stated that there should have been an analysis of the impact of the special index on income replacement ratios at locations where the index had applied. In their view, no technical changes should be made until a more comprehensive analysis has been undertaken of all aspects of the special index, covering conceptual as well as technical issues.[3]

284. In addition, and as reflected in the annual report of ICSC for 1996 to the General Assembly,[4] the Consultative Committee on Administrative Questions[5] had expressed disappointment that the 1996 study did not respond to many of the concerns that had been raised in 1994. In particular, the Consultative Committee had noted that the previous reviews did not provide for a full analysis of how the special index had met the perceived needs for its existence, nor did they demonstrate what impact the special index had had on income replacement issues. Without those analyses, the Committee had noted, it could not express a view regarding retention of the special index. The Committee had further noted that it should first be determined if, over time, the special index had worked as anticipated.

285. The conceptual inconsistencies are highlighted above. The data provided to the Board demonstrated, for the first time, the impact that the special index had on the income replacement ratios. In addition, there were now 14 more years of experience since the last review, including the Fund's most recent review of the technical inconsistencies and conceptual concerns related to the provisions of the special index. It was on that basis that the CEO responded to the question initially posed by

[3] Ibid., *Fifty-first Session, Supplement No. 9* (A/51/9), para. 172.

[4] Ibid., *Supplement No. 30* (A/51/30).

[5] The Consultative Committee on Administrative Questions is currently known as the High-level Committee on Management, which is one of three high-level committees that support the CEB. Its responsibilities include the harmonization of business practices across the system, including general management issues, thus ensuring overall management coherence from global to country level.

the Consultative Committee on Administrative Questions in 1996, by concluding that over time it had become evident that the special index was not working as anticipated. Moreover, the special index was an element that was aimed at taking into account taxes levied on pension benefits. It was stressed, however, that the only time the special index applied was in some instances where there was an applicable cost-of-living differential factor. In other words, application of the special index resulted in the reduction of benefits that were often already below the targeted income replacement rate. The special index was not applied, however, when there was a high 36-month average exchange rate (i.e., United States dollar to local currency) and thus no applicable cost-of-living differential factor.

286. In addition, and as mentioned in the "Guide to National Taxation of UNJSPF Benefits — with special reference to United States tax" (JSPB/G.11/Rev.6), "national tax laws, especially those relating to pensions, are exceedingly complex and diverse, and subject to frequent change. Consequently, the United Nations is not able to maintain up-to-date familiarity in this field nor to give advice to individual participants or their survivors". It was further noted that, whether or not a particular payment from the Fund was subject to taxation (and to what extent) depended primarily on the status of the recipient at the time the payment was received. The special index, on the other hand, was applied at the time the benefit was determined and it remained constant throughout retirement.

287. After having concluded that the special index had not been working as anticipated owing to the conceptual inconsistencies described above, the Board also recognized the administrative complexities associated with the applicability of the special index. It was noted that those complexities were obvious and quickly evident when reviewing the provisions governing the determination of the cost-of-living differential factor and the applicability of the special index, as included in the provisions of the Fund's pension adjustment system.

288. With that in mind, it was further recalled that one of the guiding principles highlighted by the Committee of Actuaries in its 2008 report, and further reflected in the 2008 report of the Board,[6] was "simplicity of administration and reduction of risks". More specifically, and as noted by the independent consultants who carried out the Whole Office Review of the Fund in 2008, "complexity adds risks to a pension fund administration. Wherever you create exceptions you increase risks in a pension fund environment geometrically not linearly".

289. Moreover, it was also recalled that the Board had recognized the inherent risk associated with the complexity of the provision, which also was in line with views expressed by the Committee of Actuaries and by the independent consultants who carried out the Whole Office Review. More specifically, when the provision was first considered, the Board had noted that: "There was the added complexity of allowing not only for national but also for local tax rates. The Board stressed that utmost care would have to be exercised not to apply any reductions beyond the extent to which they could be justified on the basis of incontrovertible data. In cases of uncertainty regarding the validity of any figures used in the calculations, a smaller rather than a higher reduction factor should be applied".[7]

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[6] *Official Records of the General Assembly, Sixty-third session, Supplement No. 9* (A/63/9), para. 283.

[7] Ibid., *Thirty-seventh Session, Supplement No. 9* (A/37/9), para. 69.

Conclusion of the Board

290. **In concluding its consideration of the matter, the Board agreed that its recommendation should be aimed at addressing the conceptual deficiencies inherent in the existing provisions of the special index. As part of the inconsistencies identified, it was noted that the special index was applicable only in some instances where the cost-of-living factor applied and therefore only at the lower ranges of pension amounts, when the income replacement ratios were often already below the targeted income replacement rates.**

291. **Given the conceptual deficiencies identified and based on its initial discussions in 2009, and its further consideration of the issue in 2010, the Board decided to recommend that the General Assembly approve the suspension of the special index provision for all separations as from 1 January 2011. In order to give effect to this decision, paragraph 6 (a) (v) and 6 (b) (vi) of the Fund's pension adjustment system would be removed as from 1 January 2011.**

D. Possible revision to article 35 bis: divorced surviving spouse's benefit

292. At its fifty-sixth session, in 2009, the Pension Board had considered a document in which the Secretary/CEO presented an amendment to the Regulations reflecting a proposal from FAFICS that the requirement of article 35 bis (b) (i) with regard to a continuous period of 10 years of marriage, during which contributions were paid to the Fund, should be reduced to five years. The Committee of Actuaries had concluded that the potential cost of the proposed amendment was not actuarially material.

293. During the discussions at the fifty-sixth session of the Board, the executive heads wished to assess the potential impact the suggested amendment would have on their respective member organizations' human resources policies, particularly in respect of other benefits for staff members and including eligibility for after-service health insurance, the eligibility period for which remained 10 years of continuous service in the applicable medical insurance plan of some member organizations. At that time, the Board decided to postpone its decision on the proposed amendment to article 35 bis to the fifty-seventh session in 2010. The Board was provided with the new text of the proposed amendment to article 35 bis (b) (i).

294. The executive heads reiterated their concerns with regard to the possible ancillary effects of the proposed amendment on other benefits payable after retirement, as well as the added complexity in the administration of the spousal benefits, both in member organizations and within the Fund. The participant representatives noted that in their view the measure had already been agreed to in 2008 and there was no linkage between the eligibility of after-service health insurance benefits and article 35 bis. As such the eligibility period in the Fund was five years, whereas the after-service health insurance eligibility, a distinct and a separate post-retirement benefit, required 10 years of participation in the active staff medical insurance plans of some member organizations. FAFICS expressed its dissatisfaction at linking the proposal with any other policies and entitlements of employing organizations and defended the change in favour of a vulnerable group, a limited number of divorced spouses.

295. **The Board could not reach consensus and therefore could not agree with the proposed change to article 35 bis (b) (i) (Divorced surviving spouse's benefit).**

Chapter X
Other matters

A. Report of the 191st meeting of the Standing Committee

296. The Board approved the report of the 191st meeting of the Standing Committee, which was held at the United Nations Office at Vienna on 15 July 2009, during the fifty-sixth session of the Pension Board.

B. Proposed new Fund transfer agreements

297. The Board was informed that the Fund secretariat had been contacted by three international intergovernmental organizations that were interested in concluding new transfer agreements with the Pension Board. However, before entering into specific discussions with those three organizations, the CEO had decided that it would be necessary to undertake a thorough review of the administration and operation of the Fund's existing transfer agreements, in order to identify practical problems that had arisen with past agreements and to develop a model transfer agreement that could be used in the negotiation of future transfer agreements. The document before the Board listed some of the main issues that were being examined by the secretariat. It also had a complete list of the 19 transfer agreements that had been concluded pursuant to article 13 of the Fund's Regulations.

298. As part of the review, the Fund secretariat will examine the identifiable administrative and other costs that were incurred in dealing with individual cases under the Fund's various transfer agreements. The results of the review, together with a model transfer agreement, would be utilized when negotiating possible new transfer agreements with intergovernmental organizations and governments. Pursuant to article 13 of the Regulations, the secretariat will submit any draft agreements for the Pension Board's approval, for further submission to the General Assembly for its concurrence.

C. Review of pensionable remuneration

299. In 1996, the General Assembly requested that ICSC, in full cooperation with the Pension Board, undertake a further comprehensive review in 2002 of the methodologies for the determination of the pensionable remuneration of staff in the Professional and higher categories, and for the adjustment of the pensionable remuneration between comprehensive reviews (resolution 51/217, sect. II). The review had been delayed owing to the ongoing review of pay and benefits. In February 2010, the Pension Fund was notified by ICSC that the review was now included in the ICSC programme of work for 2010-2011, with the results of the review scheduled for presentation to the Pension Board and ICSC at their 2011 summer sessions.

300. The Chairman of ICSC attended the Board session and provided additional background on the upcoming review of pensionable remuneration. He noted that ICSC was simultaneously embarking on a total compensation review in the next biennium, which would include several Member States and analyse salary,

allowances and benefits. He noted that pension benefits and an analysis of income replacement ratios would be included in the study.

301. **The Pension Board expressed support for the review to be conducted and acknowledged that the review was overdue.**

302. **The Pension Board reviewed the items presented for study by ICSC for the current review, as well as the seven items it had originally suggested for inclusion in the review in 2004. The Board decided to retain the following issues from 2004 in the current review:**

(a) **Non-pensionable component;**

(b) **Double taxation;**

(c) **Impact of steep devaluation of local currency and/or high inflation;**

(d) **Monitoring of income replacement ratios;**

(e) **Comparability of the Fund with the Federal Employees Retirement System plans of the United States of America.**

303. **The Board requested that additional countries and similar international organizations, with defined benefit plans, be included in the comparability review of the Fund. The European Commission, the World Bank, the International Monetary Fund and the Organization for Economic Cooperation and Development were suggested as potential comparators. However, it was noted that no organization would compare exactly to the Fund. The Board also cautioned making comparisons only with the Federal Employees Retirement System plan, given its scheme of three different plan designs, of which one was a tax-favourable defined contribution plan. The Pension Board noted that the review would be of limited value without including other comparators, in addition to the United States.**

304. The Chairman of ICSC noted that, under the Noblemaire Principle, the United States had always been the usual comparator when looking at national civil servants throughout the world, as it had provided the highest pay and benefits of civil servants among the Member States. He also reminded the Board that the total compensation review to be completed in the next biennium would include the benefits of other member organizations.

305. **The issue of small pensions was added to the list of items to be included in the review.**

306. **The Board determined that two items: (a) reverse application of the special index and (b) the impact of the pay and benefits review, should be deleted from the 2004 list.**

307. Regarding the modalities of the 2010-2011 review, ICSC has suggested a project plan and timetable, assuming the review would be carried out jointly by a working group of the secretariats of the Fund and ICSC and completed by the spring of 2011. **The Board concurred with the ICSC project plan and timetable. In addition, the Board's suggested items and considerations reflected above would be presented at the upcoming meeting of ICSC at the end of July 2010.**

D. United Nations Administrative Tribunal and United Nations Appeals Tribunal

1. Judgements of interest to the Board

308. In two notes to the Board, the Secretary/CEO provided information on 15 judgements where the Pension Board had been the respondent. Five of the judgements were issued by the United Nations Administrative Tribunal, which was abolished on 31 December 2009, and 10 were issued by the United Nations Appeals Tribunal, which became operational on 1 July 2009 under the new system of administration of justice of the United Nations.

309. The Tribunals upheld the decisions of the Board in 12 cases, remanded one case to the Standing Committee for determination of the facts, and in two cases the decisions of the Board were reversed in favour of the appellants.

310. Three cases concerned requests for a widow's benefits. The Board had determined in each case that the Applicant was not eligible to receive the benefit. The United Nations Administrative Tribunal upheld the decision of the Board in *Boo de Lopez versus United Nations Joint Staff Pension Board (Case No. 1526; Judgement No. 1467)*. The United Nations Appeals Tribunal upheld the decisions of the Board in *Tebeyene* v. *United Nations Joint Staff Pension Board (Case No. 2010-021; Judgment No. 2010-UNAT-016)* and *El-Zaim* v. *United Nations Joint Staff Pension Board (Case No. 2009-008; Judgment No. 2010-UNAT-007)*. In the latter case, the Tribunal stated that it concurred with its predecessor, the United Nations Administrative Tribunal, that the civil status of a staff member was determined by the law of the staff member's nationality, but decided that that policy did not apply in the case as the staff member, a Syrian national, had married his first wife, another Syrian national, in France under French law, and had not taken appropriate steps to end his first marriage under French law before marrying the Applicant.

311. Four cases concerned requests for restoration that had been denied by the Board. In *Lacoste* v. *United Nations Joint Staff Pension Board (Case No. 1529; Judgement No. 1468)*, the United Nations Administrative Tribunal determined that the Applicant had failed to restore her prior period of contributory service in a timely manner, while the United Nations Appeals Tribunal found in the following three cases that the Applicants were not covered by the 2006 amendment to article 24 (a) of the Regulations: *Neville* v. *United Nations Joint Staff Pension Board (Case No. 2009-005; Judgment No. 2010-UNAT-004)*; *Carranza* v. *United Nations Joint Staff Pension Board (Case No. 2010-024; Judgment No. 2010-UNAT-019)*; and *Nock* v. *United Nations Joint Staff Pension Board (Case No. 2010-028; Judgment No. 2010-UNAT-023)*.

312. Three cases concerned requests for a disability benefit under article 33 (a) of the Regulations. In *Goodale* v. *United Nations Joint Staff Pension Board (Case No. 1577; Judgment No. 1494)*, the United Nations Appeals Tribunal, after reviewing the facts of the case, relied on its well-established principle that it would not seek to substitute subjective judgement of administrative bodies charged with making medical decisions; it found that the Standing Committee had made the right decision when it refused to grant a disability benefit, as the Applicant was neither disabled nor unable to carry out duties that were suited to her abilities and skills. The Tribunal had awarded the Applicant US$ 5,000 on the basis that the Administration had not acted with due diligence in handling the Applicant's

situation. The Office of Administration of Justice clarified that the Tribunal should not have awarded the amount against the Fund, but it was to be paid by the employing organization.

313. In *Frechon* v. *United Nations Joint Staff Pension Board (Case No. 2009-004; Judgment No. 2010-UNAT-003)*, the United Nations Appeals Tribunal found that the facts in the case were unclear as to whether the Applicant met the requirements for a disability benefit under article 33 (a) of the Regulations. The Tribunal remanded the case to the Standing Committee to review its decision on the basis of the reasons set out in the judgment.

314. The Tribunal dismissed the appeal of the Applicant in *Shanks* v. *United Nations Joint Staff Pension Board (Case No. 2010-031; Judgments Nos. 2010-UNAT-026* and *2010-UNAT-064)*, finding that the Applicant had suffered no prejudice when her request for the Standing Committee to re-review the award to her of a disability benefit by the United Nations Staff Pension Committee had been denied by the Fund. The Applicant subsequently filed a request for reconsideration of the judgment, but the Tribunal dismissed the request with reasons to follow in its Judgment No. 2010-UNAT-064.

315. In *Skoda* v. *United Nations Joint Staff Pension Board (Case No. 2010-022; Judgment No. 2010-UNAT-017)*, the United Nations Appeals Tribunal found that the Applicant had had two options with respect to his participation in the Fund upon taking up a period of secondment with the World Bank — first, under articles 22 (b) and 25 (b) (i) of the Fund Regulations, and secondly, under the Transfer Agreement between the World Bank and the Fund, but he had failed to exercise either option and the case was dismissed.

316. At its session in June 2010, the United Nations Appeals Tribunal considered the case of *Muthuswami et al.* v. *United Nations Joint Staff Pension Board (Case No. 2009-001; Judgment No. 2010-UNAT-034)*. The Applicants and a number of other retirees requested that the Fund end, after a certain number of years, the reduction in the Fund pension benefits of retirees who at the time of separation had exercised the option to commute into a lump sum a portion of their pension benefit entitlement in accordance with article 28 (g) of the Fund's Regulations. The Standing Committee upheld the decision of the CEO, and the retirees appealed to the United Nations Appeals Tribunal. The Tribunal decided to hold a hearing in this case, which took place on 22 June 2010 during its session in New York. The Tribunal pronounced judgement on 1 July 2010, stating that the appeal was dismissed with reasons to follow in its Judgment No. 2010-UNAT-034).

317. The United Nations Administrative Tribunal reversed the decision of the Board not to recognize the Applicant's child as a dependant pursuant to administrative rule B.3 after his separation from service in the case of *Clarke* v. *United Nations Joint Staff Pension Board (Case No. 1520; Judgement No. 1479)*, based on the exceptional circumstances of the case.

318. The Tribunal also reversed the decision of the Board in *Annan* against *United Nations Joint Staff Pension Board (Case No. 1592; Judgement No. 1495)*. The issue in this case was whether the Applicant had forfeited his right to a periodic monthly benefit from the Fund during the period that he served as Secretary-General of the United Nations and between 1 January 1997 and 31 December 2006. The Tribunal found against the Fund as the Applicant asserted that his understanding of the word

"suspend" in the communications between him and the Fund was the opposite of that put forward by the Fund, which had made efforts to avoid a situation whereby the Applicant would be in receipt of a monthly pension from the Fund while he served as Secretary-General of the United Nations and, thereby, create a conflict with the General Assembly's position against double-dipping pursuant to the adoption by the General Assembly of its decision 51/408. The Tribunal determined that the Fund should pay the Applicant the monthly pension benefits that had accrued between 1 January 1997 and 31 December 2006, with 8 per cent interest from 1 January 2007.

319. **The Board took note of the above decisions of the United Nations Administrative Tribunal and the United Nations Appeals Tribunal. The Chairman further noted that the majority of the decisions of the CEO/Secretary, the United Nations Staff Pension Committee and the Standing Committee had been upheld, which was a sign that the Regulations and Rules of the Fund were being properly administered.**

2. Cost-sharing arrangements of the United Nations Appeals Tribunal

320. At its fifty-sixth session in 2009, the Board took note of the new United Nations system of administration of justice and of General Assembly resolution 63/253. The Board noted the statute of the United Nations Appeals Tribunal and acknowledged that the new Appeals Tribunal would have the same jurisdiction as that of the former Administrative Tribunal on the matters arising out of decisions of the Board's Standing Committee. At the same time, the Board inquired about the financial implications of the new administration of justice system and decided that the Secretary/CEO should provide additional information on the cost-sharing arrangements.

321. The Secretary/CEO informed the Board that the Controller of the United Nations had advised that the Fund, which participated in the new system of administration of justice at the Appeals Tribunal level only, was subject to the payment of a flat fee of US$ 9,600 per case. The Fund secretariat was currently finalizing a formal agreement with the United Nations in that regard.

322. The executive head representatives from the United Nations informed the Board that the flat fee was currently being reviewed by the United Nations and that the fee was likely to be increased in the future.

323. **The Board approved the cost-sharing arrangements for the use of the new administration of justice system of the United Nations.**

E. Amendment of Fund Regulations (articles 1 (b) and 4 (b) and Administrative Rules (Introduction (a) and (b) and J.2 (i))

324. The secretariat advised the Board that following the changes made to the Regulations of the Fund, namely, article 21 (Participation), effective 1998, and to article 24 (Restoration of prior contributory service) in 2006 and 2008, administrative rule J.2 (a) (ii) should also have been deleted. The rule provided that changes in the election of benefits by the participants shall not be accepted unless: "In the case of a deferred retirement benefit, in addition to meeting the condition under subparagraph (i) above, no letter of entitlement has yet been sent by the

Fund". The rule had become redundant as the Fund's practice, pursuant to the amendments of the mentioned articles and subsequent guidance from the Pension Board in 2008, had been to interpret the clauses "without a benefit having been paid" in article 21 (b) and "deferred retirement benefit that was not yet in payment" in article 24 (a) to mean that no actual sum of money had been emitted in accordance with any payment instructions received, without regard to whether or not a benefit letter had been sent.

325. **The Board approved the corresponding change in the Administrative Rules of the Fund.**

326. With regard to the promulgation of the Administrative Rules of the Fund in the future, it was suggested that, for the purposes of establishing a more efficient and accurate regulatory framework and a hierarchy of statutory provisions governing the administration of the Fund's operations, the Administrative Rules of the Fund should be promulgated by the CEO. The Board was advised that the Administrative Rules were published as annex I to the booklet entitled "Regulations, Rules and Pension Adjustment System of the United Nations Joint Staff Pension Fund", an up-to-date version of which could always be found on the Fund's website (www.unjspf.org). The Administrative Rules prescribe instructions and procedures for the implementation of the Fund's Regulations, which establish broader policy.

F. Election of members of the Standing Committee (Rules of procedure, rule B.1)

327. The members of the Standing Committee, as elected by the Board in 2010, are listed in annex III to the present report.

G. Venue and date of the fifty-eighth session of the Pension Board

328. The main agenda items before the Board in 2011 would be the proposed budget of the Fund for the biennium 2012-2013 and the actuarial assumptions and methodology to be used for the thirty-first actuarial valuation of the Fund, to be carried out as of 31 December 2011. **In the light of the anticipated agenda and the Board's decision that efforts be made to limit its agenda and the duration of its session; especially in the odd-numbered years when considering the budget of the Fund, the Board decided to meet for five working days in 2011, from 11 to 15 July. The Board accepted the invitation from the United Nations to host the fifty-eighth session of the Board in Geneva.**

H. Review of small pensions

329. FAFICS provided a note for presentation to the Board on the review of small pensions. The note was not discussed by the Board as the issue of small pensions would be taken up in conjunction with the review of pensionable remuneration rates (see para. 305 above.).

I. Situation of former Fund participants from the former Union of Soviet Socialist Republics, Ukrainian Soviet Socialist Republic and Byelorussian Soviet Socialist Republic

330. FAFICS submitted a note reflecting some slight improvement in the situation of former participants in the Fund from the former Union of Soviet Socialist Republics, the Ukrainian Soviet Socialist Republic and Byelorussian Soviet Socialist Republic.

331. **The Board took note of the information provided by FAFICS.**

J. Other business

332. **The Pension Board recognized with appreciation and gratitude the participation of Dr. Jean Larivière as Chair of the Working Group on Plan Design and, more importantly, as an active member of the Board, who continually provided valuable comments and advice in the Board's proceedings. Dr. Larivière was now retiring from the Board after a long and distinguished tenure.**

333. **The Board requested a change in the preparation of sessional reports of the Pension Board during budget years of the General Assembly. Instead of preparing two reports, one to fully document the Pension Board's session and the other to be provided to the General Assembly with strictly budget items, it was decided that a single report be prepared. It should contain all items addressed by the Pension Board but be structured in such a manner as to clearly segregate the budget items that required actions from the Assembly from the rest of the proceedings of the Pension Board with the non-budgetary items carried over to the next year's report.**

334. **The Board further requested that the secretariat prepare a compendium of Board decisions, including a progress report on the status of each item for the Board. The Chairman further suggested that the compendium be made available to the Board on the website.**

Annex I

Organizations members of the United Nations Joint Staff Pension Fund

The organizations members of the United Nations Joint Staff Pension Fund are the United Nations and the following:

European and Mediterranean Plant Protection Organization

Food and Agriculture Organization of the United Nations

International Atomic Energy Agency

International Centre for Genetic Engineering and Biotechnology

International Centre for the Study of the Preservation and the Restoration of Cultural Property

International Civil Aviation Organization

International Criminal Court

International Fund for Agricultural Development

International Labour Organization

International Maritime Organization

International Organization for Migration

International Seabed Authority

International Telecommunication Union

International Tribunal for the Law of the Sea

Inter-Parliamentary Union

Special Tribunal for Lebanon

United Nations Educational, Scientific and Cultural Organization

United Nations Industrial Development Organization

World Health Organization

World Intellectual Property Organization

World Meteorological Organization

World Tourism Organization

Annex II

Membership of the Board and attendance at the fifty-seventh session

1. The following members and alternate members were accredited by the staff pension committees of the organizations members of the United Nations Joint Staff Pension Fund, in accordance with the rules of procedure:

Representing	*Members*	*Alternates*
United Nations		
General Assembly	P. R. O. Owade (Kenya)	A. Kovalenko (Russian Federation)
General Assembly	G. Kuentzle (Germany)	T. Repasch (United States of America)
General Assembly	L. Mazemo (Zimbabwe)	M. A. Muhith (Bangladesh)
General Assembly	V. M. González Posse (Argentina)	J. Yamada (Japan)
Secretary-General	A. Kane (Germany)	S. Van Buerle (Australia)
Secretary-General	C. Pollard (Guyana)	A. Roy (India)
Secretary-General	K. Matsuura-Mueller (Japan)	
Secretary-General	J. Pozenel (United States of America)	
Participants	A. Adeniyi (Nigeria)	
Participants	C. Santos Tejada (Ecuador)	
Participants	A. K. Lakhanpal (India)[a]	
World Health Organization		
Governing body	A. J. Mohamed (Oman)	H. Siem (Norway)
Executive head	C. Hennetier-Rossier (France)	S. Frahler (United States of America)
Participants	K. Bruchmann (Germany)	D. Walter (United States of America)
International Labour Organization		
Governing body	D. Willers (Germany)	
Participants	P. Sayour (Switzerland)	F. Léger (France)

Representing	*Members*	*Alternates*
United Nations Educational, Scientific and Cultural Organization		
Governing body	A. Brasil Da Silva (Brazil)	
Executive head	G. Engida (Ethiopia)	
Food and Agriculture Organization of the United Nations		
Governing body	C. Bentancour (Uruguay)	
Executive head	N. Nelson (United States of America)[b]	C. Nana Yaa Nikoi (Ghana)
Participants	M. Pace (Italy)	M. Saif (United States of America)
United Nations Industrial Development Organization		
Participants	M.-O. Dorer (Lebanon)	K. Billand (Germany)
International Civil Aviation Organization		
Governing body	M. Rossell (United Kingdom of Great Britain and Northern Ireland)	
International Telecommunication Union		
Participants	J. N. Sanou (Burkina Faso)	K. Benkirane-Demlek (Algeria)
World Meteorological Organization		
Executive head	S. Liu (China)	
International Maritime Organization		
Participants	M. Tun (Myanmar)[c]	T.A. Pushparajah (Sri Lanka)
International Fund for Agricultural Development		
Governing body	A. Zimmermann (Argentina)	
International Atomic Energy Agency		
Executive head	D. Northey (New Zealand)	
Participants	D. Neal (United States of America)	
World Intellectual Property Organization		
Governing body	V. Yossifov (Bulgaria)[d]	
Executive head	T. Dayer (Switzerland)	

2. The following attended the session of the Board as representatives, observers or secretaries of staff pension committees, in accordance with the rules of procedure:

Representatives	*Organizations*	*Representing*
J. Llobera-Serra	ILO	Executive head
P. Billault Leiva	UNESCO	Participant
G. Polastri Amat	UNIDO	Governing body
S. Antonopoulou	UNIDO	Executive head
J. Girard	ICAO	Executive head
J. Forest	ITU	Governing body
R. Barr	ITU	Executive head
C. Dahoui (15-16 July)	IMO	Executive head
A. Winbow (19-23 July)	IMO	Executive head
J. Francis	IMO	Governing body
C. Cliff	IAEA	Governing body
B. Fitzgerald	WIPO	Participants
A. Castellanos del Corral	FAFICS	Pensioners
R. Eggleston	FAFICS	Pensioners
G. Schramek	FAFICS	Pensioners
T. Teshome	FAFICS	Pensioners
M. Johnson (Alternate)	FAFICS	Pensioners
S. A. Janakiram (Alternate)	FAFICS	Pensioners

Observers	*Organization*
J. Larivière	Chairman, Working Group on Plan Design
V. de Kermel (15-16 July)	FICSA
B. Pinero (19-23 July)	FICSA
C. Land-Kazlauskas	CCISUA
K. Rhodes	International Civil Service Commission
E. Phillip	International Civil Service Commission

Secretaries	*Staff pension committees*
B. Sperandio de Llull	WHO
C. McGarry	ILO
M. Ghelaw	UNESCO
N. Gangi	FAO
P. Nenonen	UNIDO
M. Wilson	ITU
P. Geddes	WMO
A. Nathoo	IMO
M. J. Sagayadan-Sisto	IFAD
R. Sabat	IAEA
T. Dayer	WIPO
I. Rusedski	ICAO
B. Pisani	ICCROM
E. Gouws	ICC
M. Kashou	STL
C. Molina	WTO
S. Hartmann-Vereshchar	ITLOS

3. The following attended all or part of the session of the Board:

Committee of Actuaries

J. Král, Chairman

D. Latulippe, Vice-Chairman

H. Pérez Montás, Rapporteur

Consulting actuary

J. McGrath, Buck Consultants

Medical consultant[c]

B. Davey

Board of Auditors[c]

I. Vanker

L. Ravhuhali

A. Nongogo

Office of Internal Oversight Services[c]

R. Benz

G. Kumar

Investments Committee

W. McDonough, Chairman

M. Arikawa

E. Cárdenas

M. Dhar

N. A. Kirdar

H. Ploix

S. Jiang

L. Mohohlo

Representative of the Secretary-General for the Investments of the Fund

W. Sach

Investment Management Division

S. Bishopric, Director

Z. Tangonan-Fourcade

S. Peerthum, Secretary

T. Shindo

K. Kessaci

A. Singh

T. Wojciekowski

P. Sinikallio

4. B. Cochemé, Chief Executive Officer, and S. Arvizu, Deputy Chief Executive Officer, served as Secretary and Deputy Secretary for the session, with the assistance of A. Blythe, F. DeTurris, P. Goddard, C. Kaiser, D. Liberatore, S. Losi, D. Mapondera, J. Sareva.

Notes

[a] Rapporteur.

[b] First Vice-Chair.

[c] Second Vice-Chair.

[d] Chair.

[e] By videoconference.

Annex III

Membership of the Standing Committee

Representing	*Members*	*Alternates*
United Nations (Group I)		
General Assembly	P. R. Owade[a]	A. Kovalenko
	V. M. González Posse	T. Repasch
		J. Yamada
Secretary-General	C. Pollard	S. Van Buerle
	J. Pozenel	A. Roy
Participants	A. Adeniyi	A. K. Lakhanpal
	C. Santos Tejada[b]	
Specialized agencies (Group II)		
Governing body	A. J. Mohamed (WHO)	C. Bentancourt (FAO)
Executive head	C. Nana Yaa Nikoi (FAO)[c]	S. Frahler (WHO)
Participants	D. Walter (WHO)	M. Saif (FAO)
Specialized agencies (Group III)		
Governing body	D. Willers (ILO)	
Executive head	M. Ghelaw (UNESCO)	
Participants	D. Neal (IAEA)	
Specialized agencies (Group IV)		
Executive head	S. Antonopoulou (UNIDO)	
Participants	J. Sanou (ITU)	
Specialized agencies (Group V)		
Governing body	A. Zimmermann (IFAD)	

Representatives	*Alternate Representatives*
Federation of Associations of Former International Civil Servants	
A. Castellanos del Corral	M. Johnson
S. Janakiram	T. Teshome

Notes

[a] Chair.

[b] Second Vice-Chair.

[c] First Vice-Chair.

Annex IV

Statement of the actuarial sufficiency, as at 31 December 2009, of the United Nations Joint Staff Pension Fund to meet the liabilities under article 26 of the Regulations

1. In the report of the thirtieth actuarial valuation of the United Nations Joint Staff Pension Fund, the consulting actuary has assessed the actuarial sufficiency of the Fund, for purposes of determining whether there is a requirement for deficiency payments by the member organizations under article 26 of the Regulations of the Fund. The assessment as at 31 December 2009 was based on participant and asset information submitted by the secretariat of the Fund and on the Regulations in effect on that date.

2. The demographic and other actuarial assumptions used, including a 7.5 per cent discount rate, were those adopted by the Pension Board at its fifty-sixth session in 2009, except that future new participants were not taken into account and no future salary growth was assumed.

3. The liabilities were calculated on a plan termination methodology. Under that methodology, the accrued entitlements of active participants were measured on the basis of their selecting the benefit of highest actuarial value available to them, assuming termination of employment on the valuation date. The liabilities for pensioners and their beneficiaries were valued on the basis of their accrued pension entitlements as at the valuation date. For purposes of demonstrating sufficiency under article 26 of the Regulations, no provision was made for pension adjustments subsequent to 31 December 2009.

4. All calculations were performed by the consulting actuary in accordance with established actuarial principles and practices.

5. The results of the calculations are set forth in the table below:

Actuarial sufficiency of the Fund as at 31 December 2009

(Millions of United States dollars)

Item	*Amount*
Actuarial value of assets[a]	38 154.0
Actuarial value of accrued benefit entitlements	27 323.3
Surplus	**10 830.7**

[a] Five-year moving average market value methodology, as adopted by the Pension Board for determining the actuarial value of the assets.

6. As indicated in the table above, the actuarial value of assets exceeds the actuarial value of all accrued benefit entitlements under the Fund, based on the Regulations of the Fund in effect on the valuation date. **Accordingly, there is no requirement, as at 31 December 2009, for deficiency payments under article 26 of the Regulations of the Fund.** The market value of assets as at 31 December 2009 is $37,659.6 million. Therefore, the market value of assets also exceeds the actuarial value of all accrued benefit entitlements as at the valuation date.

Annex V

Statement of actuarial position of the United Nations Joint Staff Pension Fund as at 31 December 2009

Introduction

1. The actuarial valuation as at 31 December 2009 was performed on a range of economic assumptions regarding future investment earnings and inflation. In addition, four sets of participant growth assumptions were used. The remaining actuarial assumptions, which are of a demographic nature, were derived on the basis of the emerging experience of the Fund, in accordance with sound actuarial principles. The assumptions used in the valuation were those adopted by the United Nations Joint Staff Pension Board at its fifty-sixth session in 2009, based on the recommendations of the Committee of Actuaries.

Actuarial position of the Fund as at 31 December 2009

2. At its meetings in June 2010, the Committee of Actuaries reviewed the results of the actuarial valuation as at 31 December 2009, which had been carried out by the consulting actuary. Based on the results of the regular valuation and after consideration of further relevant indicators and calculations, the Committee of Actuaries and the consulting actuary were of the opinion that the present contribution rate of 23.7 per cent of pensionable remuneration was sufficient to meet the benefit requirements under the plan, and would be reviewed at the time of the next actuarial valuation, as at 31 December 2011.

Annex VI

Membership of the Committee of Actuaries

Member	*Representing*
J. Král (Czech Republic)	Region III (Eastern European States)
D. Latulippe (Canada)	Region V (Western European and Other States)
T. Nakada (Japan)	Region II (Asian States)
H. Pérez Montás (Dominican Republic)	Region IV (Latin America and the Caribbean)
B. K. Y. S. Yen (Mauritius)	Region I (African States)

Ad hoc member	*Representing*
C. L. Nathal (Mexico)	Region IV (Latin American and Caribbean States)
K. Heubeck (Germany)	Region V (Western Europe and Other States)

Annex VII

Membership of the Investments Committee

Members

M. Arikawa (Japan)

E. J. Cárdenas (Argentina)

F. G. Chico Pardo (Mexico)

M. Dhar (India)

A. Kassow (Germany)

N. A. Kirdar (Iraq)

L. K. Mohohlo (Botswana)

W. J. McDonough (United States of America)

H. Ploix (France)

Ad hoc members

S. Jiang (China)

I. Pictet (Switzerland)

Annex VIII

Statistics on the operations of the Fund for the biennium ended 31 December 2009

A. Number of participants

Member organization	*Participants as at 31 December 2007*	*New entrants*	*Transfer*		*Separations*	*Participants as at 31 December 2009*	*Per cent increase (decrease)*
			In	*Out*			
United Nations[a]	74 575	22 292	381	604	14 068	82 576	10.7
ILO	3 366	1 038	64	59	767	3 642	8.2
FAO	5 735	1 148	146	106	912	6 011	4.8
UNESCO	2 526	426	21	27	344	2 602	3.0
WHO	10 157	2 506	178	168	1 644	11 029	8.6
ICAO	795	136	17	13	151	784	-1.4
WMO	332	48	9	10	64	315	-5.1
IAEA	2 273	335	25	28	360	2 245	-1.2
IMO	337	47	5	11	55	323	-4.2
ITU	843	86	16	10	104	831	-1.4
WIPO	1 134	81	9	2	68	1 154	1.8
IFAD	519	54	10	6	43	534	2.9
ICCROM	38	2	—	1	3	36	-5.3
EPPO	12	1	—	—	—	13	8.3
ICGEB	177	29	—	—	12	194	9.6
WTO/Tourism	100	7	3	1	14	95	-5.0
ITLOS	36	1	1	2	2	34	-5.6
ISA	29	5	2	—	5	31	6.9
UNIDO	759	186	20	12	128	825	8.7
ICC	719	265	68	57	130	865	20.3
IPU	45	5	—	—	2	48	6.7
IOM	2 059	1 485	28	24	414	3 134	52.2
STL	—	123	140	2	2	259	N/A
Total	**106 566**	**30 306**	**1 143**	**1 143**	**19 292**	**117 580**	**10.3**

[a] The United Nations Headquarters, regional offices and all funds and programmes.

B. Benefits awarded to participants or their beneficiaries during the biennium ended 31 December 2009

Member organization	Number of benefits awarded											
	Retirement benefit	Early retirement benefit	Deferred retirement benefit	Withdrawal settlement		Child's benefit	Widow's and widower's benefit	Other death benefit	Disability benefit	Secondary dependant's benefit	Transfer under-agreements	Total
				Under 5 years	Over 5 years							
United Nations[a]	1 572	819	282	7 451	3 283	1 698	170	35	80	2	17	**15 409**
ILO	126	45	20	488	56	82	18	2	10	—	1	**848**
FAO	241	120	25	391	93	136	13	2	10	—	8	**1 039**
UNESCO	149	55	12	99	12	85	5	2	6	—	—	**425**
WHO	278	115	50	942	201	276	29	4	6	—	2	**1 903**
ICAO	54	23	6	51	7	21	4	—	3	—	—	**169**
WMO	25	8	2	22	3	8	—	1	3	—	—	**72**
IAEA	133	51	48	80	34	44	3	1	9	—	1	**404**
IMO	25	10	2	12	5	4	—	—	1	—	—	**59**
ITU	41	28	4	22	8	12	—	—	1	—	—	**116**
WIPO	32	11	—	12	9	18	—	1	3	—	—	**86**
IFAD	7	9	1	21	2	3	—	—	3	—	—	**46**
ICCROM	1	1	1	—	—	—	—	—	—	—	—	**3**
EPPO	—	—	—	—	—	—	—	—	—	—	—	**—**
IGEB	4	—	1	7	—	—	—	—	—	—	—	**12**
WTO/Tourism	10	—	—	4	—	3	—	—	—	—	—	**17**
ITLOS	—	—	1	1	—	—	—	—	—	—	—	**2**
ISA	3	1	—	—	1	2	—	—	—	—	—	**7**
UNIDO	43	19	7	42	12	14	1	—	4	—	—	**142**
ICC	1	—	2	117	8	—	—	—	1	—	1	**130**
IPU	1	—	—	1	—	—	—	—	—	—	—	**2**
IOM	13	1	3	391	1	16	3	—	—	—	—	**428**
STL	—	—	—	2	—	—	—	—	—	—	—	**2**
Total	**2 759**	**1 316**	**467**	**10 156**	**3 735**	**2 422**	**246**	**48**	**140**	**2**	**30**	**21 321**

[a] The United Nations Headquarters, regional offices and all funds and programmes.

C. Analysis of periodic benefits for the biennium ended 31 December 2009

Type of benefit	*Total as at 31 December 2007*	*New*	*Reinstatement*	*Benefits discontinued, resulting in award of survivor's benefit*	*Benefit type changes*	*All other benefits discontinued*	*Total as at 31 December 2009*
	Number of periodic benefits						
Retirement	19 482	2 758	1	(530)	(5)	(414)	21 292
Early retirement	13 074	1 313	1	(307)	(2)	(198)	13 881
Deferred retirement	6 782	466	—	(96)	—	(226)	6 926
Widow	8 966	226	2	895	6	(473)	9 622
Widower	631	37	1	69	1	(42)	697
Disability	1 106	138	—	(32)	—	(37)	1 175
Child	8 001	2 422	15	—	—	(2 230)	8 208
Secondary dependant	42	2	—	1	—	(5)	40
Total	**58 084**	**7 362**	**20**	**—**	**—**	**(3 625)**	**61 841**

Annex IX

Audit opinion and financial statements and schedules for the biennium 2008-2009

A. Audit opinion

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Joint Staff Pension Fund which comprise the statement of assets, liabilities and principal of the Fund (statement II) as at 31 December 2009, the statement of income, expenditure and changes in principal of the Fund (statement I) and the statement of cash flows (statement III) for the biennium then ended, and schedules 1 to 5 and the notes to the financial statements. The annexes accompanying the financial statements, which present supplementary information, have not been audited.

Management's responsibility for the financial statements

The Chief Executive Officer of the Fund and the Representative of the Secretary-General for the Investments of the Fund are responsible for the preparation and fair presentation of these financial statements in accordance with the United Nations system accounting standards and for such internal control as management deems necessary to enable the preparation of financial statements that are free from material misstatement, whether attributable to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the IAS. The IAS standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including an assessment of the risks of material misstatement of the financial statements, whether attributable to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the United Nations Joint Staff Pension Fund as at 31 December 2009 and its financial performance and cash flows for the biennium then ended in accordance with the United Nations system accounting standards.

Without qualifying our opinion referred to above, we draw attention to our discussion in our report on the financial statements of the Fund (annex X to the present document) on the management of the investments of the Fund. Amid the financial market turmoil and global recession, key indices and benchmarks experienced drops, and in some cases negative returns. The Fund too experienced a drop in its total investment portfolio, with significant realized and unrealized losses. There were a number of investments where a substantial portion of capital was lost and there remain investment positions with large unrealized losses. The realization of these losses will have a negative effect on the capital of the Fund. The Board has commented on the need for investment strategies that minimize losses, within the context of the overall investment goals of the Fund. The Fund has disclosed a net profit on the sale of investments for the biennium of $412 million. The Board has commented on the need for an enhanced description and disclosure in the financial statements of the underlying realized gains and losses, as well as the unrealized positions. The Fund responded to the market volatility through its diversification and asset allocation strategy. It is also currently implementing a Risk Management Manual and developing a risk management software tool.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the United Nations Joint Staff Pension Fund that have come to our notice, or which we have tested as part of our audit, have in all significant respects been in accordance with the Regulations, Rules and Pension Adjustment System of the United Nations Joint Staff Pension Fund and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations and the related annex thereto, we have also issued a long-form report on our audit of the United Nations Joint Staff Pension Fund.

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa
Chairman of the United Nations Board of Auditors
(Lead Auditor)

(*Signed*) Didier **Migaud**
First President of the Court of Accounts of France

(*Signed*) **Liu** Jiayi
Auditor-General of the People's Republic of China

30 June 2010

B. Financial statements and schedules[a]

Statement I

Statement of income and expenditure and change in principal of the Fund for the bienniums ended 31 December 2009 and 2007

(United States dollars)

	2008-2009		*2006-2007*	
Income				
Contributions				
Participants:				
Regular contributions	1 229 336 569		1 020 639 897	
Contributions for validation	2 172 740		18 355 384	
Contributions for restoration	18 697 970		15 771 723	
Member organizations:				
Regular contributions	2 458 673 138		2 041 279 794	
Contributions for validation	4 271 438		36 707 864	
Contributions for participants transferred in under agreements	3 625 090		3 049 312	
Receipts of excess actuarial value over regular contributions	1 247 879	**3 718 024 824**	433 643	**3 136 237 617**
Investment income (schedule 2)				
Interest earned	1 034 136 807		1 143 674 668	
Dividends	1 158 293 514		953 029 725	
Real estate and related securities	97 917 839		303 032 189	
Net profit on sale of investments	411 660 646	**2 702 008 806**	4 768 769 980	**7 168 506 562**
Interest earned on contributions		**1 587 692**		**9 359 594**
Other income (note B.2 (h))		**17 014 891**		**15 537 090**
Total income		**6 438 636 213**		**10 329 640 863**

[a] The accompanying schedules and notes are an integral part of the financial statements.

Statement I (continued)

	2008-2009		2006-2007	
Expenditure				
Payment of benefits				
Withdrawal settlements and full commutation of benefits	203 198 139		157 501 211	
Retirement benefits	1 812 007 074		1 516 364 342	
Early and deferred retirement benefits	1 247 051 086		1 078 186 987	
Disability benefits	94 115 517		78 784 372	
Death benefits	360 737 918		308 376 062	
Children's benefits	42 877 532		38 427 908	
Currency exchange adjustments	(3 752 743)		9 285 028	
Payments for participants transferred out under agreements	3 321 560	**3 759 556 083**	1 651 967	**3 188 577 877**
Administrative expenses (schedule 1 and note B.1)				
Administrative costs	71 075 800		55 455 137	
Investment costs chargeable to gross income from investments	45 471 400		43 165 446	
Audit costs	2 294 700		1 598 633	
Board expenses	127 400	**118 969 300**	—	**100 219 216**
Emergency Fund		**69 333**		**71 769**
Change in after-service health insurance and end-of-service liabilities (note B.5)		**3 061 000**		—
Total expenditure		**3 881 655 716**		**3 288 868 862**
Excess of income over expenditure		**2 556 980 497**		**7 040 772 001**
Prior year adjustments (note B.3)		5 562 341		(21 623 456)
Net excess of income over expenditure		**2 562 542 838**		**7 019 148 545**
Principal of the Fund				
Principal of the Fund, beginning of year		30 583 419 830		23 564 271 285
Beginning balance, after-service health insurance and end-of-service liabilities (note B.5)		(31 370 000)		—
Principal of the Fund, end of year		33 114 592 668		30 583 419 830
Change in principal of the Fund		**2 562 542 838**		**7 019 148 545**

Certified correct:

(*Signed*) Warren **Sach**
Representative of the Secretary-General for the
Investments of the United Nations Joint Staff Pension Fund

(*Signed*) Bernard **Cochemé**
Chief Executive Officer
United Nations Joint Staff Pension Fund

Statement II

Statement of assets, liabilities and principal of the Fund as at 31 December 2009 and 2007

(United States dollars)

	2009		*2007*	
Assets				
Cash and term deposits		757 915 871		160 955 892
Investments (schedule 2)				
Temporary investments — at cost (market value: $113 894 673)	115 377 384		1 066 948 010	
Bonds — at cost (market value: $11 186 686 842)	10 591 103 829		12 302 983 936	
Stocks and convertible bonds — at cost (market value: $24 055 540 101)	19 858 590 541		15 545 659 138	
Real estate and related securities — at cost (market value: $1 350 768 371)	1 596 823 170	32 161 894 924	1 142 657 400	30 058 248 484
Accounts receivable				
Contributions receivable from member organizations	31 243 083		116 852 552	
Receivable from investments (schedule 3)	—		82 502 613	
Accrued income from investments (schedule 3)	180 923 410		228 663 537	
Receivable for taxes withheld (schedule 4)	58 290 559		40 383 884	
(Less) Provision for receivable for taxes withheld (schedule 5, note B.4)	(9 736 301)		(10 157 352)	
Other	5 434 760	266 155 511	4 296 764	462 541 998
Prepaid benefits		16 512 016		17 735 988
Total		**33 202 478 322**		**30 699 482 362**
Liabilities				
Accounts payable				
Benefits payable		29 065 100		26 172 864
Payable for securities purchased		—		81 947 358
Other	24 389 554	53 454 654	7 942 310	116 062 532
After-service health insurance and end-of-service liabilities (note B.5)		34 431 000		—
Total liabilities		**87 885 654**		**116 062 532**
Principal of the Fund		**33 114 592 668**		**30 583 419 830**
Total		**33 202 478 322**		**30 699 482 362**

Certified correct:

(*Signed*) Warren **Sach**
Representative of the Secretary-General for the
Investments of the United Nations Joint Staff Pension Fund

(*Signed*) Bernard **Cochemé**
Chief Executive Officer
United Nations Joint Staff Pension Fund

Statement III

Statement of cash flows for the bienniums ended 31 December 2009 and 2007

(United States dollars)

	2008-2009	*2006-2007*
Cash flows from operating activities		
Net excess of income over expenditure	2 562 542 838	7 019 148 545
Decrease (increase) in contributions receivable	85 609 469	(30 993 455)
(Increase) decrease in other accounts receivable	(1 137 996)	20 886 643
Decrease in prepaid benefits	1 223 972	213 770
Increase in benefits payable	2 892 236	2 036 122
Increase (decrease) in other accounts payable	16 447 244	(22 753 314)
Increase in after-service and end-of-service liabilities	3 061 000	—
Net cash from operating activities	**2 670 638 763**	**6 988 538 311**
Cash flows from investment activities		
(Increase) in cost of investments	(2 103 646 440)	(7 037 263 763)
Decrease (increase) in investments receivable	111 915 014	(153 034 610)
(Decrease) increase in payable for securities purchased	(81 947 358)	75 921 931
Net cash (used in) investment activities	**(2 073 678 784)**	**(7 114 376 442)**
Net cash from/(used in) activities	**596 959 979**	**(125 838 131)**
Cash and term deposits beginning of year	160 955 892	286 794 023
Cash and term deposits end of year	757 915 871	160 955 892
Net increase (decrease) in cash and term deposits	**596 959 979**	**(125 838 131)**

Schedule 1

Status of appropriations for the biennium ended 31 December 2009 in relation to administrative expenses for the bienniums ended 31 December 2009 and 2007

(Thousands of United States dollars)

	Revised appropriations 2008-2009			*Expenditure 2008-2009*			*Expenditure 2006-2007*		
	Pension Fund	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*
A. Administrative costs									
Established posts	**23 212.9**	**10 699.2**	**33 912.1**	**23 558.1**	**10 966.7**	**34 524.8**	**19 207.7**	**9 603.8**	**28 811.5**
Other staff costs	**2 303.7**	**613.3**	**2 917.0**	**2 180.9**	**624.2**	**2 805.1**	**873.9**	**437.0**	**1 310.9**
Consultants	**91.4**	**—**	**91.4**	**106.4**	**—**	**106.4**	**—**	**—**	**—**
Travel of staff	844.9	—	844.9	471.6	—	471.6	347.3	—	347.3
Travel of representatives	230.0	—	230.0	526.1	—	526.1	167.1	—	167.1
Travel	**1 074.9**	**—**	**1 074.9**	**997.7**	**—**	**997.7**	**514.4**	**—**	**514.4**
Training	**293.9**	**—**	**293.9**	**228.7**	**—**	**228.7**	**154.8**	**—**	**154.8**
International Computing Centre services	8 232.6	2 570.8	10 803.4	8 320.8	2 535.6	10 856.4	5 440.0	1 953.2	7 393.2
Contractual services	5 393.5	750.9	6 144.4	5 224.5	609.9	5 834.4	3 943.1	546.8	4 489.9
Contractual services	**13 626.1**	**3 321.7**	**16 947.8**	**13 545.3**	**3 145.5**	**16 690.8**	**9 383.1**	**2 500.0**	**11 883.1**
Hospitality	**3.3**	**—**	**3.3**	**2.6**	**—**	**2.6**	**3.3**	**—**	**3.3**
Rental and maintenance of premises	5 434.0	2 717.0	8 151.0	5 429.8	2 714.9	8 144.7	4 841.8	2 420.9	7 262.7
Rental and maintenance of equipment	69.3	34.6	103.9	74.4	30.0	104.4	39.9	20.0	59.9
Communications services	658.9	100.0	758.9	630.8	72.9	703.7	99.5	49.7	149.2
Operating expenses	347.3	31.9	379.2	252.3	37.6	289.9	299.6	—	299.6
Bank charges	2 500.0	—	2 500.0	2 398.4	—	2 398.4	2 009.2	—	2 009.2
General operating expenses	**9 009.5**	**2 883.5**	**11 893.0**	**8 785.7**	**2 855.4**	**11 641.1**	**7 290.0**	**2 490.6**	**9 780.6**
Supplies and materials	193.1	67.2	260.3	190.4	72.9	263.3	354.2	18.9	373.1
Furniture and equipment	3 784.0	462.5	4 246.5	3 384.2	431.1	3 815.3	1 954.0	669.4	2 623.4
Supplies furniture and equipment	**3 977.1**	**529.7**	**4 506.8**	**3 574.6**	**504.0**	**4 078.6**	**2 308.2**	**688.3**	**2 996.5**
Total administrative costs	**53 592.8**	**18 047.4**	**71 640.2**	**52 980.0**	**18 095.8**	**71 075.8**	**39 735.4**	**15 719.7**	**55 455.1**

Schedule 1 (continued)

(Thousands of United States dollars)

	Revised appropriations 2008-2009			*Expenditure 2008-2009*			*Expenditure 2006-2007*		
	Pension Fund	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*
B. Investment costs									
Established posts	**10 703.5**	**—**	**10 703.5**	**10 617.0**	**—**	**10 617.0**	**7 277.3**	**—**	**7 277.3**
Other staff costs	**739.0**	**—**	**739.0**	**318.9**	**—**	**318.9**	**44.5**	**—**	**44.5**
Consultants	**799.5**	**—**	**799.5**	**299.5**	**—**	**299.5**	**869.4**	**—**	**869.4**
Travel of staff	715.0	—	715.0	630.4	—	630.4	241.8	—	241.8
Investment committee	638.8	—	638.8	387.6	—	387.6	335.1	—	335.1
Travel	**1 353.8**	**—**	**1 353.8**	**1 018.0**	**—**	**1 018.0**	**576.9**	**—**	**576.9**
Training	**280.4**	**—**	**280.4**	**215.1**	**—**	**215.1**	**33.6**	**—**	**33.6**
Electronic-data processing and other contractual services	1 161.0	—	1 161.0	1 198.9	—	1 198.9	248.4	—	248.4
External legal consultant	1 400.0	—	1 400.0	653.9	—	653.9	382.5	—	382.5
Investment reference services	1 823.6	—	1 823.6	2 175.5	—	2 175.5	944.1	—	944.1
Advisory and custodial fees	29 624.8	—	29 624.8	23 463.1	—	23 463.1	30 191.8	—	30 191.8
Contractual services	**34 009.4**	**—**	**34 009.4**	**27 491.4**	**—**	**27 491.4**	**31 766.8**	**—**	**31 766.8**
Hospitality	**14.7**	**—**	**14.7**	**16.4**	**—**	**16.4**	**9.5**	**—**	**9.5**
Rental and maintenance of premises	5 229.3	—	5 229.3	5 011.5	—	5 011.5	1 364.4	—	1 364.4
Rental and maintenance of equipment	28.1	—	28.1	12.4	—	12.4	14.5	—	14.5
Communications services	—	—	—	—	—	—	375.4	—	375.4
Operating expenses	266.3	—	266.3	133.6	—	133.6	328.5	—	328.5
General operating expenses	**5 523.7**	**—**	**5 523.7**	**5 157.5**	**—**	**5 157.5**	**2 082.8**	**—**	**2 082.8**
Supplies and materials	101.2	—	101.2	91.0	—	91.0	161.4	—	161.4
Furniture and equipment	589.6	—	589.6	246.6	—	246.6	343.3	—	343.3
Supplies, furniture and equipment	**690.8**	**—**	**690.8**	**337.6**	**—**	**337.6**	**504.7**	**—**	**504.7**
Total investment costs	**54 114.8**	**—**	**54 114.8**	**45 471.4**	**—**	**45 471.4**	**43 165.5**	**—**	**43 165.5**

Schedule 1 (concluded)

(Thousands of United States dollars)

	Revised appropriations 2008-2009			*Expenditure 2008-2009*			*Expenditure 2006-2007*		
	Pension Fund	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*
C. Audit costs									
External audit	**568.4**	**113.7**	**682.1**	**568.4**	**113.7**	**682.1**	**485.3**	**97.0**	**582.3**
Internal audit	**1 381.8**	**276.3**	**1 658.1**	**1 343.8**	**268.8**	**1 612.6**	**847.1**	**169.2**	**1 016.3**
Total audit costs	**1 950.2**	**390.0**	**2 340.2**	**1 912.2**	**382.5**	**2 294.7**	**1 332.4**	**266.2**	**1 598.6**
D. Board expenses	**100.0**	**—**	**100.0**	**127.4**	**—**	**127.4**	**—**	**—**	**—**
Total administrative expenses	**109 757.8**	**18 437.4**	**128 195.2**	**100 491.0**	**18 478.3**	**118 969.3**	**84 233.3**	**15 985.9**	**100 219.2**
E. Income									
Income from operations banks	**—**	**—**	**—**	**1 587.7**	**—**	**1 587.7**	**9 359.6**	**—**	**9 359.6**

Schedule 2

Summary statement of investments and income as at 31 December 2009 and for the biennium ended 31 December 2009, with comparative figures as at 31 December 2007

(Thousands of United States dollars)

	Cost				*Market value*				*2008-2009 income*		
Investments	*31 December 2009*	*Percentage of total cost*	*31 December 2007*	*Percentage of total cost*	*31 December 2009*	*Percentage of total market value*	*31 December 2007*	*Percentage of total market value*	*Profit/(loss) on sales*	*Dividends, interest or other income*	***Total***
Temporary investments											
United States dollars	—	0.0	457 449	1.5		0.0	457 748	1.1	2 803	36 861	**39 664**
Other currencies	115 377	0.4	609 499	2.0	113 895	0.3	618 184	1.5	(57 278)	9 307	**(47 971)**
Subtotal	**115 377**	**0.4**	**1 066 948**	**3.5**	**113 895**	**0.3**	**1 075 932**	**2.6**	**(54 475)**	**46 168**	**(8 307)**
Bonds											
United States dollars	4 277 521	13.3	3 999 434	13.3	4 344 855	11.8	4 146 872	10.0	34 840	410 613	**445 453**
Other currencies	6 313 583	19.6	8 303 549	27.6	6 841 832	18.6	9 430 133	22.8	448 525	577 356	**1 025 881**
Subtotal	**10 591 104**	**32.9**	**12 302 983**	**40.9**	**11 186 687**	**30.4**	**13 577 005**	**32.8**	**483 365**	**987 969**	**1 471 334**
Stocks and convertible bonds											
United States	8 612 083	26.7	6 454 504	21.5	10 048 495	27.4	9 847 095	23.8	182 605	323 028	**505 633**
Other countries	11 246 508	35.0	9 091 156	30.3	14 007 045	38.2	15 171 165	36.7	(210 359)	835 266	**624 907**
Subtotal	**19 858 591**	**61.7**	**15 545 660**	**51.8**	**24 055 540**	**65.6**	**25 018 260**	**60.5**	**(27 754)**	**1 158 294**	**1 130 540**
Real estate and related securities											
United States and other countries	1 596 823	5.0	1 142 657	3.8	1 350 768	3.7	1 710 033	4.1	10 524	97 918	**108 442**
Total portfolio	**32 161 895**	**100.0**	**30 058 248**	**100.0**	**36 706 890**	**100.0**	**41 381 230**	**100.0**	**411 660**	**2 290 349**	**2 702 009**

Schedule 3

Summary statement of accrued income and accounts receivable from investments as at 31 December 2009, with comparative figures as at 31 December 2007

(United States dollars)

Investments	*Accrued income from investments*		*Accounts receivable from investments*	
	31 December 2009	*31 December 2007*	*31 December 2009*	*31 December 2007*
Temporary investments				
United States dollars	—	715 802	—	81 947 358
Other currencies	66 730	181 831	—	—
Subtotal	**66 730**	**897 633**	**—**	**81 947 358**
Bonds				
United States dollars	44 687 045	45 086 486	—	—
Other currencies	109 197 977	150 348 355	—	—
Subtotal	**153 885 022**	**195 434 841**	**—**	**—**
Stocks and convertible bonds				
United States	11 112 109	9 955 850	—	—
Other countries	15 591 237	19 145 406	—	—
Subtotal	**26 703 346**	**29 101 256**	**—**	**—**
Real estate and related securities				
United States and other countries	268 312	3 229 807	—	555 255
Total portfolio	**180 923 410**	**228 663 537**	**—**	**82 502 613**

Schedule 4

Summary of foreign tax account receivables as at 31 December 2009

Country	*Currency*	*Local currency*						*Exchange rate in effect at 31 December 2009*	*Equivalent in United States dollars*
		Prior to 2006	*2006*	*2007*	*2008*	*2009*	*Total*		
Belgium	EUR	11 305	—	—	—	—	11 305	0.6969855	16 220
Brazil	BRL	866 056	51 789	—	—	412 199	1 330 044	1.7432000	762 989
China	HKD	—	—	—	692 225	7 545 696	8 237 921	7.7540500	1 062 402
Czech Republic	CZK	—	—	—	—	5 250 000	5 250 000	18.4039500	285 265
Germany	EUR	—	—	—	4 984 156	4 783 635	9 767 791	0.6969855	14 014 338
Greece	EUR	—	—	—	—	53 218	53 218	0.6969855	76 355
Ireland	EUR	[illegible]3 065	—	—	—	—	153 065	0.6969855	219 610
Italy	EUR	[illegible]2 625	—	—	—	—	1 392 625	0.6969855	1 998 068
Kenya	KES	483 998	—	—	—	—	483 998	75.8500000	6 381
Malaysia	MYR	3 879 013	64 000	389 520	3 141 304	1 157 658	8 631 495	3.4240000	2 520 880
	SGD	748 129	—	—	—	—	748 129	1.4039500	532 874
Mexico	MXN	341 399	—	—	—	—	341 399	13.0554000	26 150
Netherlands	EUR	—	—	—	—	60 637	60 637	0.6969855	87 000
Philippines	PHP	955 148	—	—	—	—	955 148	46.2300000	20 661
Singapore	SGD	2 018 111	—	50 616	1 165	—	2 069 892	1.4039500	1 474 335
	MYR	52 920	—	—	—	—	52 920	3.4240000	15 456
Spain	EUR	2 506 006	233	—	—	326 864	2 833 103	0.6969855	4 064 796
Switzerland	CHF	—	—	7 988 072	11 882 599	10 918 779	30 789 450	1.0337500	29 784 233
Turkey	TRY	—	48 620	—	163 540	172 989	385 149	1.4989500	256 946
United Kingdom of Great Britain and Northern Ireland	GBP	—	—	—	—	106 668	106 668	0.6192526	172 252
	EUR	—	—	—	232 864	220 872	453 736	0.6969855	650 997
	CHF	—	—	4 263	—	—	4 263	1.0337500	4 124
United States of America	USD	238 227	—	—	—	—	238 227	1.0000000	238 227
Total amount outstanding									**58 290 559**

Schedule 5

Provision for historical taxes receivable as at 31 December 2009

		Local currency											
Country	*Currency*	*1980-1989*	*1990-1991*	*1992-1993*	*1994-1995*	*1996-1997*	*1998-1999*	*2000-2001*	*2002-2003*	*2004-2005*	*Total as at 31 December 2009*	*Exchange rate in effect at 31 December 2009*	*Equivalent in United States dollars*
Belgium	EUR	—	—	—	11 305	—	—	—	—	—	11 305	0.6969855	16 220
Brazil	BRL	—	—	—	—	61 048	318 985	173 862	154 485	157 676	866 056	1.7432000	496 820
Ireland	EUR	—	—	—	21 808	131 257	—	—	—	—	153 065	0.6969855	219 610
Italy	EUR	464 614	195 626	—	—	108 237	624 148	—	—	—	1 392 625	0.6969855	1 998 069
Kenya	KES	—	—	—	—	219 999	263 999	—	—	—	483 998	75.8500000	6 381
Malaysia	MYR	—	—	—	1 577 802	2 259 211	42 000	—	—	—	3 879 013	3.4240000	1 132 889
	SGD	11 686	59 544	145 079	248 652	283 168	—	—	—	—	748 129	1.4039500	532 874
Mexico	MXN	40 332	—	—	—	—	22 379	278 688	—	—	341 399	13.0554000	26 150
Philippines	PHP	768 751	—	91 872	93 290	1 235	—	—	—	—	955 148	46.2300000	20 661
Singapore	SGD	—	—	—	995 888	1 022 223	—	—	—	—	2 018 111	1.4039500	1 437 452
	MYR	—	—	30 240	22 680	—	—	—	—	—	52 920	3.4240000	15 456
Spain	EUR	1 570 814	799 576	135 616	—	—	—	—	—	—	2 506 006	0.6969855	3 595 492
United States	USD	—	—	—	—	—	238 227	—	—	—	238 227	1.0000000	238 227
Total amount outstanding													**9 736 301**

C. Notes to the financial statements as at and for the biennium ended 31 December 2009

A. Description of the pension plan

The following is only a brief description of the pension plan provided by United Nations Joint Staff Pension Fund. The Regulations and Rules of the Fund are available on the Fund's website (www.unjspf.org).

1. General

The Fund was established by the General Assembly in 1949 to provide retirement, death, disability and related benefits for staff of the United Nations and the other organizations admitted to membership in the Fund. The Fund is a multiple-employer defined benefit plan. There are currently 23 member organizations participating in the Fund. All participating organizations and employees contribute to the Fund based on their level of pensionable remuneration. The contribution rate is a fixed rate of 7.9 per cent for participants and 15.8 per cent for employers.

The Fund is governed by the Pension Board, which is made up of: (a) 12 members appointed by the United Nations Staff Pension Committee, four of whom are from the members and alternate members elected by the General Assembly, four from those appointed by the Secretary-General, and four from those elected by the participants in service in the United Nations; and (b) 21 members appointed by the staff pension committees of the other organizations members of the Fund in accordance with the Rules of Procedure of the Fund, seven of whom are from the members and alternate members chosen by the bodies of the member organizations corresponding to the General Assembly, seven from those appointed by the chief administrative officers of the member organizations, and seven from those chosen by the participants in service.

2. Administration of the Fund

The Fund is administered by the Pension Board, a staff pension committee for each member organization, and a secretariat to the Board and to each such committee.

3. Participation in the Fund

Full-time members of the staff of each member organization become participants in the Fund upon commencing employment under an appointment for six months or longer or upon completion of six months of service without an interruption of more than 30 days. As at 31 December 2009, the Fund had over 117,500 active contributors (participants) belonging to 23 organizations/agencies (which include the United Nations Secretariat, UNICEF, UNDP and UNHCR, as well as the various specialized agencies such as WHO and ILO in Geneva, IAEA in Vienna, ICAO in Montreal, UNESCO in Paris, etc.). There are currently about 62,000 retirees (beneficiaries) spread in some 190 countries. The total annual pension payments are about $1.9 billion, which are paid in 15 different currencies.

4. Operation of the Fund

Participant and beneficiary processing and queries are handled by the operations area of the Fund, in offices located in New York and Geneva. All the accounting for the operations is handled in New York by a centralized Financial Services Section, which also manages the banking and receipt of monthly contributions from member organizations and the funding of the monthly pension payroll.

The management of the investments of the Fund is the fiduciary responsibility of the Secretary-General of the United Nations, in consultation with the Investments Committee and in the light of observations and suggestions made from time to time by the Pension Board on the investment policy. The Assistant Secretary-General for Central Support Services has been designated as the Representative of the Secretary-General for the management and administration of the investments of the Fund. The Representative is assisted by the staff of the Investment Management Division.

5. Actuarial valuation of the Fund

Article 12 of the Regulations and Rules of the Fund provides that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years. The article further provides that the actuarial report shall state the assumptions on which the calculations are based, describe the methods of valuation used, and state the results, as well as the recommendations, if any, for appropriate action (see note C for the summary of the actuarial situation of the Fund based on the actuarial valuation as at 31 December 2009).

6. Retirement benefit

Any participant who has five years of contributory service receives, upon separation at or after normal retirement age, a retirement benefit payable for the remainder of his or her life. "Normal retirement age" means age 60 for a participant whose service commenced prior to 1 January 1990 and age 62 for a participant whose service commenced or recommenced after 31 December 1989.

The standard annual rate of retirement benefit for a participant who enters the Fund on or after 1 January 1983 is the sum of:

(a) 1.5 per cent of final average remuneration multiplied by the first five years of contributory service;

(b) 1.75 per cent of final average remuneration multiplied by the next five years of contributory service;

(c) 2 per cent of final average remuneration multiplied by the years of contributory service in excess of 10, but not exceeding 25; and

(d) 1 per cent of final average remuneration multiplied by years of contributory service in excess of 35, but not including service credited prior to 1 July 1995, and not exceeding 3.75 per cent.

The standard annual rate of retirement benefit for a participant who entered the Fund prior to 1 January 1983 is 2 per cent of final average remuneration multiplied by contributory service not exceeding 30 years, plus 1 per cent of final average

remuneration multiplied by such service in excess of 30 years, not exceeding 10 years. The maximum benefit to participants at the equivalent level of Under-Secretary-General or Assistant Secretary-General is the greater of 60 per cent of pensionable remuneration at the date of separation or the maximum benefit that would be payable, at that date, to a participant at the D-2 level (i.e., who has been at the top step for the preceding five years).

The minimum annual rate of retirement benefit is the smaller of $180 or one thirtieth of final average remuneration, multiplied by contributory service not exceeding 10 years. The annual rate of the benefit is not less than the smaller of $300 or the final average remuneration of the participant.

"Final average remuneration" means the average annual pensionable remuneration of a participant during the 36 completed months of highest pensionable remuneration within the last 5 years of contributory service.

A participant may, except in the case where a minimum benefit is payable and the participant does not waive the rights thereto, elect to receive: (a) if the retirement benefit is $300 per annum or more, a lump sum not greater than the larger of one third of the actuarial equivalent of the retirement benefit (not exceeding the maximum amount payable to a participant then retiring at normal retirement age, with final average remuneration equal to the pensionable remuneration for the top step of level P-5), or the amount of the participant's own contributions at retirement, and the participant's retirement benefit is then reduced accordingly; or (b) if the participant's retirement benefit is less than $300 per annum, the lump sum actuarial equivalent of the full retirement benefit, including the prospective spouse's benefit, if any, if the participant so elects.

Early retirement

An early retirement benefit is payable to a participant whose age on separation is at least 55 but less than the normal retirement age and who has 5 years or more of contributory service at separation.

The early retirement benefit is payable at the standard annual rate for a retirement benefit reduced by 6 per cent for each year between retirement date and normal retirement age, except that: (a) if the participant has completed 25 but less than 30 years of contributory service at the date of retirement, the part of the benefit for service before 1 January 1985 is reduced by 2 per cent a year, and the remaining part of the benefit is reduced by 3 per cent a year; or (b) if the participant has completed 30 or more years of contributory service at the date of retirement, the benefit is reduced by 1 per cent a year; provided however that the rate in (a) or (b) applies to no more than five years.

The early retiree may elect to receive a lump sum on the same terms as for a retirement benefit.

Termination prior to eligibility for early retirement

A deferred retirement benefit is payable to a participant whose age on separation is less than normal retirement age and who has 5 years or more of contributory service at separation. The deferred retirement benefit is payable at the standard rate for a retirement benefit and commences at normal retirement age. The

participant may elect to have the benefit commence at or after age 55 on the same terms as for an early retirement benefit.

The participant may elect to receive a lump sum equal to the full actuarial value of the benefit if the benefit at normal retirement age is less than $300 per annum. Effective 1 April 2000, the option for a participant to elect to receive a lump sum equal to his or her contributions if the benefit at normal retirement is at least $300 per annum was eliminated.

A withdrawal settlement is payable to a participant separating from service before normal retirement age or on or after normal retirement age if the participant is not entitled to a future retirement benefit. The participant receives his or her own contributions increased by 10 per cent for each year of contributory service in excess of 5 years, to a maximum increase of 100 per cent. If the participant's contributory service was at least 5 years and commenced prior to 1 April 1961, an alternative payment computed under the rules in effect on 31 December 1966 with respect to contributions up to that date may be granted.

7. Disability benefit

A disability benefit is payable to a participant incapacitated for further service for a period likely to be permanent or of long duration.

The disability benefit is payable at the standard or minimum annual rate for a retirement benefit if the participant is at least normal retirement age at the time of disability. If the participant is under normal retirement age, it is payable at the rate of the retirement benefit to which the participant would have been entitled if he or she had remained in service until normal retirement age and his or her final average remuneration had remained unchanged.

The annual rate of the benefit shall, notwithstanding the above, not be less, when no other benefit is payable on the account of the participant, than the smaller of $500 or the final average remuneration of the participant.

8. Death benefit

If an active participant dies, a benefit is payable to a surviving spouse if the participant died in service or after becoming entitled to a disability benefit, or if the participant was entitled to a retirement, early retirement, or deferred retirement benefit.

The spouse's benefit is payable at the standard annual rate of 50 per cent of the benefit to which the participant was entitled or which would have been payable at the time of his or her death; the benefit is not less than the smaller of $750 per annum or twice the standard annual rate. The annual rate of the benefit shall not be less, when no other benefit is payable on the account of the participant, than the smaller of $500, or the final average remuneration of the participant. A spouse's benefit ceases upon remarriage, at which time a lump sum equal to twice the annual spouse's benefit is paid. If the spouse's benefit is paid to more than one spouse, upon the death or remarriage of one such spouse, that spouse's share is divided among the remainder (with no remarriage benefit then being payable). If a participant dies prior to commencement of a deferred retirement benefit, the spouse's benefit is based on the actuarial equivalent of the deferred benefit at the time of his or her death.

9. Child benefit

A child's benefit is payable to each unmarried child under the age of 21 of a participant who dies in service or who is in receipt of or eligible to receive a retirement, early retirement or disability benefit. The benefit is also payable or continued after the age of 21 if the child is incapacitated for gainful employment.

The benefit is payable beginning at the date of death or when periodic benefits begin except that in the case of early retirement the child's benefit commences at the participant's normal retirement age (or upon his or her death, if earlier), except to a child under the age of 21 found by the Board to be disabled.

The child's benefit is equal to one third of the retirement or disability benefit payable but not less than $300 or more than $600 per annum per child, to a maximum for all children of $1,800, during the continuance of any other periodic benefit. If no other periodic benefit is payable and there is no surviving parent capable of supporting the child, or if a spouse's benefit is payable to a person who is not a natural or adoptive parent and who does not have custody of the child, the foregoing child's benefit is increased by the greater of: (a) $300 or one quarter of the periodic benefit from which it is derived if one child's benefit is payable; and (b) $600 or half of the periodic benefit from which it is derived divided by the number of eligible children if benefits are payable to more than one child. The total benefit payable to all children may not exceed, when added to any periodic benefit payable (retirement benefit at the standard rate), the participant's final average remuneration added to the children's allowances payable at the time of his or her separation.

10. Pension adjustment

The provisions of the Fund's pension adjustment system provide for periodic cost-of-living adjustments in benefits. In addition, for participants who retire in a country where the currency is not the United States dollar, the current pension adjustment system is intended to ensure that a periodic benefit never falls below the "real" value of its United States dollar amount, as determined under the Regulations and Rules of the Fund, and preserves its purchasing power as initially established in the currency of the recipient's country of residence. This is achieved by establishing a dollar base amount and a local currency base amount (the two-track system).

The "real" value of a United States dollar amount is that amount adjusted over time for movements of the United States consumer price index, while the purchasing power of a recipient's benefit, once established in local currency, is preserved by adjusting it to follow movements of the consumer price index in the recipient's country of residence.

B. Summary of accounting policies

1. Accounting for operational and investment activities

The Fund compiles its own financial statements, which consist of data collected from three main areas. For operational activities (contributions and payment of benefits), the Fund maintains its own records and systems. For investment activities, the Fund collects source data provided by the Global Custodian of the Fund through the Investment Management Division. For its

administrative expenses, the Fund utilizes United Nations systems (the Integrated Management Information System (IMIS)) to record and compile its administrative expenses activity. Some of the administrative expenses of the Fund, including costs associated with the administrative tasks of the Staff Pension Committee, are reimbursed by the United Nations under the terms of a cost-sharing arrangement. The Fund discloses the reimbursement by the United Nations as other income (see note B.2 (h)).

2. Summary of significant accounting policies

The following are some of the significant accounting policies of the Fund, which take into account the common accounting standards for the United Nations system (except as noted below) and are in accordance with the Regulations and Rules of the Fund as adopted by the General Assembly.

(a) Unit of account

The accounts are presented in United States dollars with balances held in currencies other than United States dollars being converted to United States dollars at the December United Nations operational rate of exchange. For investments, market rates of exchange are employed as explained in subparagraph (c) below.

(b) Basis of accounting

The accompanying financial statements are prepared on the accrual basis of accounting.

(c) Investments

Investments of the Fund are recorded at cost using commercial historical exchange rates at the time of the transaction or the current market rate at the report date. United Nations operational rates of exchange are not used for reporting the investments of the Fund. Cash, accrued income from investments and foreign tax account receivables maintained in currencies other than United States dollars are translated monthly using the applicable commercial exchange rates in effect at the end of the month.

Accrued income from investments and foreign tax account receivables month-end balances are automatically reversed on the first day of the following month whenever no cash is received and the amounts are re-accrued each month. Funds on deposit in interest-bearing bank accounts and overnight facilities and/or call accounts are shown in the statements of assets, liabilities and principal of the Fund as cash.

No provision is made for amortization of bond premiums or discounts, which are taken into account as part of the gain or loss when investments are sold. Provision is made for accretion of interest income on temporary investments such as commercial papers, treasury bills and discount notes. Year-end real estate market values are the values as at the end of the third quarter adjusted to reflect the cash flows during the fourth quarter. This is in accordance with industry standards as appraisals as at 31 December are not available on a consistent and timely basis for presentation in year-end financial statements. With regard to private real estate funds, any information obtained after the cut-off and/or closing date of the Global

Custodian will be recorded in the following financial period except for the recording of cash flows.

(d) Contributions

Contributions are recorded on an accrual basis. Participants and their employing member organizations are required to contribute 7.9 per cent and 15.8 per cent respectively of their pensionable remuneration to the Fund (note A.1). Each month the Fund accrues a receivable amount for contributions expected. When contributions are actually received, the receivable is offset. Contributions are to be paid by member organizations by the second business day of the month following the month to which the contributions relate.

(e) Benefits

Payments of benefits, including withdrawal settlements, are recorded on an accrual basis. The right to a benefit is generally forfeited if, for two years (for a withdrawal settlement or a residual settlement) or five years (for retirement, early retirement, deferred retirement or disability benefit) after payment has been due, the beneficiary has failed to submit payment instructions or has failed or refused to accept payment.

(f) Principal of the Fund

The principal of the Fund represents the net assets at book value (cost) accumulated by the Fund to meet future entitlements.

(g) Emergency Fund

The appropriation is recorded when the authorization is approved by the General Assembly. Participants wishing to avail themselves of this benefit make an application to the Pension Fund. After review and authorization, approved amounts are paid to the participant. Payments are charged directly against the appropriation account, and any unexpended balance reverts to the Pension Fund at the end of the year. Current year expense is reported in statement I.

(h) Other income

A majority of other income includes the part of the Fund's administrative expenses reimbursed by the United Nations under the cost-sharing arrangement. It also includes interest earned on available cash balances in operations banks (schedule I, sect. E).

(i) Adoption of IPSAS

In 2006 the General Assembly supported the decision of the High-level Committee on Management for United Nations organizations to adopt IPSAS. The Pension Board has also supported the adoption of international accounting standards, including the adoption of IFRS IAS 26, Accounting and reporting by retirement benefit plans. In addition, and also at the recommendation of the Board, the Pension Fund, in accordance with IPSAS reporting guidelines, is currently reporting certain employee benefits based on current actuarial valuations (see note B.5).

3. Prior year adjustments

Prior year adjustments include a credit in the amount of $198,375 to record taxes withheld during the period 1 January to 31 December 2008 in jurisdictions where no formal tax reclaim process has been established. As noted previously, the Fund is working to establish a process to reclaim these taxes and they have therefore been determined as valid receivables. In addition, a charge of $24,695 was necessary to reverse the recording of a 2008 tax withholding on a Global Depositary Receipt as a tax receivable. Taxes withheld on American Depositary Receipts and Global Depositary Receipts are not recorded as receivables because the Fund cannot be identified as the beneficial owner of the underlying securities and there is generally no way to reclaim the amount withheld. The remaining balance consists primarily of credits related to adjustments of pension benefit payments in prior periods, including forfeiture of unclaimed amounts and the recovery of overpaid benefits.

4. Provision for receivables for withheld taxes

The Fund is exempt from taxation by Member States in accordance with Article 105 of the Charter of the United Nations and article II, section 7 (a), of the 1946 Convention on the Privileges and Immunities of the United Nations. While some Member States grant relief at the source for the Fund's income from investments, others withhold taxes at the time dividends are paid. In these instances, the Fund's custodian bank files claims to the governmental taxing authorities for a refund on behalf of the Fund. Although the Member States withholding taxes confirmed the Fund's tax-exempt status, some countries have no formal tax reclamation mechanism in place (i.e., Brazil, China, Greece and Mexico). The Fund's Global Custodian and/or sub-custodian has thus far been unable to reclaim the taxes withheld. The Investment Management Division continues its efforts to inform the representatives of such jurisdictions about the Fund's tax-exempt status with the objective of accelerating the tax reclaim procedures.

On 4 May 2006, the Investment Management Division informed the Pension Board that with respect to the older taxes outstanding under two prior custodians, one country claimed to have lost all records regarding the Fund claims, and the other informed the Fund that all records had been destroyed because of their age. The custodians were therefore unable to pursue the outstanding claims with the respective governmental taxing authority. The Fund will continue its efforts to work closely with the current Global Custodian and in addition will independently work through the Representative of the Secretary-General to contact the respective Member State Permanent Missions for the collection of the older tax receivables.

As the success of the Fund in the collection of the older taxes may be possible but not a certainty, a provision has been established on the financial statements for any tax claims four years or older. This provision amounts to $9,736,301 at 31 December 2009 and will be adjusted annually to reflect the current balance of tax receivables that are four years or older (schedules 4 and 5). Procedures for the collection of the current tax reclaims are in place and the Investment Management Division continues to work with the custodian bank to collect these outstanding claims.

5. After-service health insurance and end-of-service liabilities

The Fund provides its employees who have met certain eligibility requirements with the following after-service and end-of-service benefits:

(a) Health-care benefits after they retire (this benefit is referred to as after-service health insurance);

(b) Repatriation benefits to facilitate the relocation of expatriate staff members;

(c) Annual leave benefits to provide staff members with periods of time off from work at full pay for personal reasons and for purposes of health, rest and recreation. Upon separation from service, staff members who have accrued unused annual leave will be paid for each day of unused leave up to a maximum of 60 days.

With effect from 1 January 2009, liabilities for all three future benefit costs to the Fund were recognized in the financial statements. The liabilities as at 1 January 2009 have been recorded through an adjustment to the principal of the Fund as follows:

(United States dollars)

Annual leave	2 373 000
Repatriation benefits	1 475 000
After-service health insurance	27 522 000
Total	**31 370 000**

In the past, the Fund had not been subject to financial disclosure or reporting standards regarding these obligations. An expense for these benefits has been reported annually as part of the administrative expenses of the Fund. As the United Nations is moving towards the adoption of IPSAS, the Fund participated with the United Nations in retaining an outside actuary to provide an actuarial estimation of the total obligation for after-service health insurance and end-of-service benefits in advance of the full implementation of IPSAS. Under IPSAS, an expense for future obligations of the Fund is recognized in the year the benefit accrues and a liability is recorded for the future cost of the benefit that will be paid.

The expense amount of $3,061,000 for the biennium 2008-2009 has been recorded in the accounts of the Fund.

The net obligation of $34,431,000 as at 31 December 2009, as estimated by the actuary, is shown in the table below.

(United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*Total*
Current retirees	11 556 000	—	—	**11 556 000**
Active employees (fully eligible)	10 410 000	756 000	—	**11 166 000**
Active employees (not fully eligible)	9 533 000	453 000	1 723 000	**11 709 000**
Total	**31 499 000**	**1 209 000**	**1 723 000**	**34 431 000**

The obligations as at 31 December 2009 were calculated based on census data as at 30 September 2009 provided to the actuary by the Fund and: (a) health insurance premium and contribution data provided by the Fund; (b) actual retiree claims experience under health insurance plans; (c) estimated travel and shipment costs and annual leave balances reported by the Fund in the census data; (d) various economic, demographic and other actuarial assumptions; and (e) generally accepted actuarial methods and procedures.

The key assumptions in the valuations are the discount rates applied. Results prior to 31 December 2009 are based on a discount rate of 5.5 per cent; as of 1 January 2010, the rate will be 6.0 per cent. For comparison purposes, the table below shows the percentage change resulting from a 1 per cent change in the discount rate as at 31 December 2009.

	Impact on accrued obligations		
Discount rate	*After-service health insurance*	*Repatriation benefit*	*Annual leave*
7.0%	16% decrease	8% decrease	6% decrease
5.0%	21% increase	10% increase	6% increase

Other specific key assumptions used in the calculations were as follows:

After-service health insurance

(a) 186 active participating former staff with an average age of 45.5 years and 10.7 years of service, 47 per cent of whom are male;

(b) A major assumption is the baseline health-care cost trend rate. The escalation rates in the valuation were 8.4 per cent in 2010, grading down to 4.5 per cent in 2027 and later years for United States medical plans, and 6.0 per cent in 2010 and grading down to 4.5 per cent in 2027 and later years for medical plans outside the United States;

(c) 60 per cent of future retirees are assumed to be married at retirement and elect to take coverage for their spouse. For future retirees with spouses, males are assumed to be three years older than females. Actual spouse ages are used for current retirees;

(d) 95 per cent of active plan participants who are expected to meet the eligibility requirements for after-service health insurance are assumed to participate in the plan. It is assumed that, once elected, coverage will not be dropped. Likewise, current retirees are expected to continue their present coverage;

(e) The plan provides that, in aggregate, the portion of health-care costs that active employees and retirees pay shall be one half for non-United States plans, one third for United States plans, and one fourth for the medical insurance plan. In practice, active employees pay higher percentages and retirees pay lower percentages in a manner that maintains these cost-sharing percentages in aggregate. The total accrued obligation related to after-service health insurance benefits in the valuation is offset by the value of contribution amounts expected to be paid towards these benefits by all plan participants, in line with the aggregate cost-sharing percentages.

Repatriation benefits

(a) Forty-one active plan participants with an average age of 45.9 years and 10.1 years of service;

(b) Salary increases ranging from 10.6 per cent for participants 20 years of age and grading down to 5.5 per cent for participants 65 years of age for Professional staff, and 8.4 per cent for participants 20 years of age and grading down to 5.5 per cent for participants 65 years of age for General Service staff;

(c) 60 per cent of participants in the plan are assumed to be married;

(d) It is assumed that all Professional staff with international status are eligible for repatriation benefits and will receive them upon separation from service;

(e) Average travel reimbursement or lump-sum payment is assumed to be $7,091 in 2010. This amount is assumed to increase by 4 per cent in future years.

Annual leave

(a) 208 active plan participants with an average age of 45.7 years and 10.5 years of service;

(b) It is assumed that all staff eligible for these benefits will receive them upon separation from service;

(c) The annual leave balance upon separation from service is projected to be equal to a staff member's current annual leave balance as at 1 January 2010 plus additional days of annual leave earned and not taken after 1 January 2010;

(d) Annual leave balances were assumed to increase by 15 per cent for participants with one year of service, 6.5 per cent for participants with 2 to 6 years of service, and 0.1 per cent for participants with 7 or more years of service;

(e) These rates were based on the accumulated annual leave amounts of currently active employees of the United Nations and 19 other organizations including the Pension Fund.

C. Actuarial situation of the Fund as at 31 December 2009 (see also note A.5)

The following is a summary of the actuarial situation of the Fund as at 31 December 2009.

Participation

Comparison summary

	Values as at 31 December	
	2007	*2009*
Active participants		
Number	106 566	117 580
Annual remuneration (in millions)	$7 771	$9 202
Average remuneration	$72 919	$78 269
Retired participants and beneficiaries		
Number	58 084	61 841
Annual benefit (in millions)	$1 486	$1 676
Average benefit	$25 579	$27 104

The number of active participants as at the 2009 valuation increased by 10.3 per cent, and the average pensionable remuneration for all staff increased by 7.3 per cent compared with the 2007 valuation. The number of Professional staff increased by 10.9 per cent and their average pensionable remuneration increased by 7.3 per cent during the period between the valuations. The number of General Service staff increased by 10.0 per cent and their average pensionable remuneration increased by 6.8 per cent in United States dollar terms.

The number of retired participants and beneficiaries increased by 6.5 per cent and the average periodic benefit increased by 6.0 per cent in United States dollar terms during the period between the valuations.

Assets

Comparison summary

	Value as at 31 December (million of United States dollars)	
	2007	*2009*
Market value of assets	41 906	37 670
Actuarial value	35 620	38 154

The market value of assets decreased from 31 December 2007 by 11.3. The actuarial value (established on the basis of a 5-year moving market average method), which is used for purposes of determining the rate of contribution required to attain the actuarial balance of the Fund, increased by 7.1 per cent from the prior actuarial valuation.

Contribution rates

Comparison summary

	Value as at 31 December (Percentage)	
	2007	*2009*
Required contribution rate to maintain (as a percentage of pensionable remuneration):		
Actuarial balance	23.21	24.08
Fund's contribution rate	23.70	23.70
Imbalance (surplus)/deficit	(0.49)	0.38

The required contribution rate as at 31 December 2007, based on the regular valuation assumptions, had been 23.21 per cent of pensionable remuneration. The increase in the required rate of contribution since the previous valuation amounted to 0.87 per cent of pensionable remuneration. The primary reasons for the net results were: (a) increases in the contribution rate attributable to adoption of the new commutation factors reflecting the new 2007 mortality table; investment return losses; increase in the administrative expenses assumption; weakening of the United States dollar against key currencies and its effect on pensionable remuneration for many General Service staff and on pensions for certain retirees on the local track system; and greater than expected increases in pensionable remuneration; which (b) were partially offset by lower than expected retiree cost-of-living adjustments and the addition of more new entrants to the Fund than expected.

Funded ratio

The funded ratio is obtained by dividing the actuarial value of assets by the accrued liability, with all of the funded ratios being 100 per cent or greater based on the market value of assets.

Comparison summary

	Values as at 31 December	
	2007	*2009*
Accrued liability (in millions)		
Without future pension adjustment	$24 243	$27 323
With future pension adjustment	$34 390	$41 950
Funded ratio		
Without future pension adjustment	147%	140%
With future pension adjustment	95%	91%

Actuarial assumptions

Comparison summary

	Values as at 31 December	
	2007	*2009*
Annual increase in pensionable remuneration	4.5%	4.5%
Nominal rate of interest	7.5%	7.5%
Price increases	4.0%	4.0%
Growth of future population	0.5% for first 10 years	0.5% for first 10 years
Mortality	1993 United Nations mortality table	2007 United Nations mortality table
Disability	1999 United Nations disability table	1999 United Nations disability table
Separation	United Nations separation table (as adjusted in 2005)	United Nations separation table (as adjusted in 2005)

D. Non-expendable property

In line with the practice of the United Nations, non-expendable property is not included in the fixed assets of the Fund but is charged against an appropriation for the year of purchase. During the period from July to December 2008, the Fund, in coordination with the Facilities Management Service of the United Nations, undertook an internal reconciliation exercise of its physical inventory to the United Nations asset register system, ProcurePlus. Having completed the reconciliation exercise for Headquarters, it is intended to undertake a reconciliation of the Fund's assets at the Geneva office. Prior to September 2008, there was no available balance for non-expendable property.

The reconciliation exercise resulted in a revision of the Fund's non-expendable property records. The values reported reflect the actual inventory of the Fund as at 31 December 2009. The status of non-expendable property as at 31 December 2009 is summarized and presented in the table below.

Movement of non-expendable property for the biennium 2008-2009	*Number of items*	*Value of items (United States dollars)*
Property identified in reconciliation exercise: beginning balance as at 30 September 2008	3 704	7 369 812
(Less) transfer of obsolete assets to Information Technology Services Division of the United Nations	(474)	(742 249)
(Less) disposal of obsolete property	(100)	(465 688)
Additions	639	402 551
Closing balance as at 31 December 2009	3 769	6 564 426

Property composition

Asset category	*Pension Fund secretariat, New York*	*Pension Fund secretariat, Geneva*	*Investment Management Division*	*Total property*
Information technology equipment				
Items	1 276	188	604	2 068
Value (United States dollars)	4 036 004	299 166	784 329	5 119 499
Furniture				
Items	1 428	60	461	1 949
Value (United States dollars)	1 339 494	34 110	404 600	1 778 204

E. Status of appropriations (schedule 1)

In accordance with General Assembly resolutions 62/241, 63/252 and 64/245, the original and revised budgets for the biennium 2008-2009 are shown below.

(United States dollars)

	Pension Fund	*United Nations*	*Total*
Initial appropriation (resolution 62/241)	131 996 500	18 998 600	**150 995 100**
Revised appropriation (resolution 63/252)	134 351 100	18 848 000	**153 199 100**
Revised appropriation (resolution 64/245)	109 757 800	18 437 400	**128 195 200**

In addition, extrabudgetary resources for the after-service health insurance system, which will be reimbursed by a number of member organizations, were approved as shown below.

(United States dollars)

	Pension Fund	*United Nations*	*Total*
Initial appropriation (resolution 62/241)	153 600	—	**153 600**
Revised appropriation (resolution 64/245)	134 700	—	**134 700**

Annex I to the Financial Statements

Statistics on the operations of the Fund for the biennium 2008-2009

See annex VIII of the present document.

Annex II to the Financial Statements

Comparison of income for the years ended 31 December 2009 and 2008 (unaudited)

(United States dollars)

Income	*2009*	*2008*	*Total*
Contributions			
Participants			
Regular contributions	638 314 394	591 022 175	1 229 336 569
Contributions for validation	1 092 983	1 079 757	2 172 740
Contributions for restoration	7 948 855	10 749 115	18 697 970
Member organizations			
Regular contributions	1 276 628 788	1 182 044 350	2 458 673 138
Contributions for validation	2 117 926	2 153 512	4 271 438
Contributions for participants transferred in under agreements	2 109 110	1 515 980	3 625 090
Receipts of excess actuarial value over regular contributions	514 828	733 051	1 247 879
Total contributions	**1 928 726 884**	**1 789 297 940**	**3 718 024 824**
Investment income			
Interest earned	453 215 179	580 921 628	1 034 136 807
Dividends	531 564 520	626 728 994	1 158 293 514
Real estate and related securities	38 903 611	59 014 228	97 917 839
Net profit (loss) on sale of investments	(467 533 852)	879 194 498	411 660 646
Total investment income	**556 149 458**	**2 145 859 348**	**2 702 008 806**
Interest earned on contributions	**380 761**	**1 206 931**	**1 587 692**
Other income	**8 678 502**	**8 336 389**	**17 014 891**
Total income	**2 493 935 605**	**3 944 700 608**	**6 438 636 213**

Annex II, part A, to the financial statements

Memorandum on investments

Despite the unprecedented global economic crisis that began in 2007, the Fund still reported a net investment income of $2.7 billion for the biennium 2008-2009. The global financial crisis affected the Fund's temporary investments in currencies other than the United States dollar ($57.3 million loss on sale of investments) and stocks and other convertible bonds in countries other than the United States ($210.4 million loss on sale of investments). The realized losses were largely attributable to the weakening of the United States dollar and the sale of the Fund's investments in the financial sector.

The Fund also reported a total unrealized gain of $4,545 million (market value of $36,707 million vis-à-vis $32,162 million at historical cost) as at 31 December 2009. Unrealized gains were reported for stocks and convertible bonds ($4,197 million) and bonds ($596 million). However, unrealized losses were reported for temporary investments ($1.5 million) and real estate and related securities ($246.1 million). Most of the Fund's real estate investments, except in Canada and the United Kingdom of Great Britain and Northern Ireland, declined in value as at 30 September 2009.

Annex X

Report of the Board of Auditors on the financial statements of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2009

Summary

The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2009. The audit was carried out through a review of the financial transactions and operations at the Fund's headquarters in New York, covering both the Investment Management Division and the secretariat of the Fund. The annexes accompanying the financial statements, which present supplementary information, have not been audited.

Modified audit opinion

The Board issued a modified audit opinion with one emphasis of matter on the financial statements for the period under review, as reflected in the report. The Board drew attention to its discussion on the management of investments of the Fund. Amid the financial market turmoil and global recession, key indices and benchmarks experienced drops and in some cases negative returns. The Fund too experienced a drop in its total investment portfolio, with significant realized and unrealized losses. There were a number of investments where a substantial portion of capital was lost, and there remain investment positions with large unrealized losses. The realization of these losses will have a negative effect on the capital of the Fund. The Board has commented on the need for investment strategies that minimize losses, within the context of the overall investment goals of the Fund. The Fund responded to the market volatility through its diversification and its asset allocation strategy. It is also currently implementing a Risk Management Manual and developing a risk management software tool. The Fund has disclosed a net profit on sale of investments for the biennium of $412 million. The Board has commented on the need for enhanced description and disclosure in the financial statements of the underlying realized gains and losses, as well as the unrealized positions.

Follow-up to previous recommendations

Of the 27 recommendations made for the biennium 2006-2007, 10 recommendations (37 per cent) were fully implemented; 15 recommendations (55 per cent) were under implementation; one recommendation (4 per cent) was not implemented; and one recommendation (4 per cent) was overtaken by events.

The one recommendation that was not implemented related to the reconciliation of contributions from member organizations. The Fund informed the Board that it had come to the conclusion that the only way to reconcile contributions on a real-time basis was with a system that would invoice organizations for their contributions each month and that such a system would require major changes to current procedures and systems. It would also require the Fund to have direct access to member organization's human resources and payroll information. The Fund had

begun to undertake preliminary steps to develop prototypes of systems and procedures that would be required to implement such an invoicing system.

The one recommendation that was overtaken by events relates to verification of continuing eligibility of children for child's benefit, which was superseded by General Assembly resolution 63/252, to delete the provision that a child must remain unmarried to be entitled to a benefit under article 36 of the Regulations and Rules of the Fund.

The Board evaluated the ageing of its previous recommendations that had not yet been fully implemented and noted that of the 15 partially implemented and one unimplemented recommendations, one (6 per cent) related to the period 2000-2001; two (13 per cent) to 2004-2005, and 13 (81 per cent) related to 2006-2007.

Financial overview

For the period under review, total income (comprising contributions and investment income) was $6.4 billion, compared with $10.3 billion for the previous biennium, a decrease of 38 per cent. Total pension contributions increased by 19 per cent, to $3.7 billion (compared with $3.1 billion in the biennium 2006-2007). The main factor reported by the Fund in accounting for the decrease in total income was a 62 per cent decline in income from investments during the biennium. This reduction was precipitated by the economic crisis in the world's financial markets, which led to correspondingly smaller realized profits and losses on the sale of investments.

Total expenditure (comprising benefit payments and administrative expenses) amounted to $3.9 billion, compared with $3.3 billion for the previous biennium, an increase of 18 per cent. Payment of benefits represented 97 per cent of expenditure and increased by 18 per cent to $3.8 billion (compared with $3.2 billion in 2006-2007). This resulted in an excess of income over expenditure of $2.6 billion, compared with an excess of $7 billion in the preceding biennium. The increase in expenditure is mainly attributable to the increase in payment of benefits associated with more beneficiaries.

The number of Fund participants as at 31 December 2009 was 117,580 (106,566 in 2007). Membership increased by 10 per cent during this biennium, as against 13.8 per cent during the biennium 2006-2007. The number of periodic benefits granted for the biennium 2008-2009 was 61,841 compared with 58,084 for the previous biennium (a 6 per cent increase).

The market value of the investment portfolio of the Fund as at 31 December 2009 was $36.7 billion (a decrease of $4.7 billion, or 11 per cent), as against $41.4 billion at 31 December 2007 and $31.4 billion at 31 December 2005. The book value of the investment portfolio increased by 7 per cent, from $30 billion at the end of 2007 to $32.1 billion at 31 December 2009.

Income from investments decreased by $4.5 billion and reached $2.7 billion for the biennium (compared with $7.2 billion in 2006-2007). As mentioned above, the challenging market environment has resulted in lower market values for investment assets at 31 December 2009, as well as much lower investment income.

The actuarial valuation conducted at 31 December 2009 determined that the actuarial assets of the Fund adequately covered the actuarial value of accrued benefit

entitlements, based on the current assumptions. Further details in this connection are provided in note C to the financial statements.

Progress towards the implementation of the International Public Sector Accounting Standards

The Fund postponed its planned transition from the United Nations system accounting standards to a new accounting framework from January 2010 to January 2012. The Board's review indicated that the IPSAS implementation plan was still not finalized; the plan lacked key components and the project did not have any dedicated staff resources.

Statement of income and expenditure

The Board noted accruals and unliquidated obligations amounting to $12.2 million that related to prior period transactions that were not reversed in the current biennium. The Board has highlighted the expenditure incurred by the Investment Management Division on rent paid for vacant premises.

Statement of assets, liabilities and reserve and fund balances

The overpayments balance of $4.9 million included overpayments amounting to $2.3 million that had not been collected by the Fund for more than three years. The Fund did not have an accounting policy or mechanism to consider impairment of long outstanding overpayments. Furthermore, foreign currency denominated balances were not revalued using the prevailing United Nations operational rate of exchange as at 31 December 2009.

The provision for foreign tax receivables decreased by only 5 per cent compared with the prior biennium, indicating a low rate of recovery of long outstanding foreign tax receivables.

The Board noted that an accrual for the portion of administrative expenses due from the United Nations for the month of December 2009 was raised only in January 2010.

The Board noted that the Fund did not perform regular reconciliations between amounts it paid in advance to the United Nations and the amounts actually paid by the United Nations on behalf of the Fund.

The Board noted that there were differences between the general ledger and the accounts payable sub-ledger and that no reconciliations were performed between the general ledger and the sub-ledger. The Fund did not have an ageing analysis for accounts payable.

Financial statement disclosures

The Fund submitted its financial statements for the biennium late. The Board noted that the Fund had inadequate accounting policies and weaknesses in its financial statement preparation process. Furthermore, the Fund did not disclose details of funds under management for the United Nations University Endowment Fund.

Investment management

The Board noted that the Fund had significant unrealized losses on certain individual investments and was of the view that some of the losses were excessive and that reversal of those losses might never occur or might only occur after a long time. The Fund informed the Board that it had responded to the market volatility through diversification and its asset allocation strategy and had adjusted its equity allocation to preserve capital by going underweight in certain risky asset classes (the financial sector) and going overweight in low volatility asset classes (Government bonds) in accordance with the advice of the Investments Committee. The Board noted the newly introduced risk management efforts of the Investment Management Division, and recommended that financial statement disclosures of realized and unrealized positions be made.

End-of-service liabilities including after-service health insurance

The Fund recognized in the financial statements end-of-service and post-retirement liabilities, including in respect of accrued annual leave, for the first time, amounting to $34.4 million.

The Board noted that the after-service health insurance in an amount of $31.5 million was not funded and that accrued leave in an amount of $1.7 million was determined by an actuarial valuation. The Board is of the view that accrued leave is a short-term benefit and therefore should not be determined using an actuarial valuation.

Non-expendable property

The Board noted that the Fund performed its own inventory verification in September 2008 and that the most recent count was performed by the United Nations Property Management and Inventory Control Unit in February 2009. However, the Fund had not received the results of the counts as at 28 May 2010 and was therefore unable to use this to update its asset register.

Human resources management

The Board noted that the Fund's human resources plan and succession plan were still being developed.

Pension fund administration

The Board is of the view that the monthly contribution reconciliation performed by the Fund is not sufficiently detailed to ascertain whether the contributions received were accurate and complete. The Board noted that the Fund only performed yearly contribution reconciliations after the accounts for the biennium were closed and that there had been a gradual increase in the number of participant exceptions even though the exceptions related to contributions were decreasing.

Payment of benefits

The Board noted the Fund processed some benefit payments directly in the Lawson accounting system (the general ledger) and not through the Joint Staff

Pension Fund Administration System (PENSYS) payroll; however, the Fund did not perform reconciliations the between the Lawson system and PENSYS.

Information technology

The Board performed a general controls review of the information technology controls around the PENSYS and Lawson systems and noted that were shortcomings in the Fund's user-account management procedures and change-control procedures.

Internal audit function and internal audit findings

The Board reviewed its scope of planned audit activities by placing reliance on certain work performed by OIOS. In particular, the Board sought to enhance its coverage of risk areas by reviewing the results of the audits of the investment management/compliance with internal policy and the financial reporting process.

OIOS undertook several audits at the Fund, the highlights of which are contained in the present report.

Disclosures by management

The Fund did not report any ex gratia payments or cases of fraud or presumptive fraud to the Board. It reported write-offs of accounts receivable, which are included in the report.

Recommendations

The Board has made several recommendations based on its audit. The main recommendations are:

(a) The Fund should: (i) finalize and approve its IPSAS implementation plan; (ii) identify and involve other stakeholders in the IPSAS implementation project; and (iii) detail what aspects of the Financial Regulations and Rules would need to be revised;

(b) The Fund should: (i) reverse all prior period unliquidated obligations and accruals as they are paid; and (ii) address the weakness in controls that resulted in accruals for items that have already been paid;

(c) The Fund secretariat should implement improved controls to ensure that amounts outstanding are recovered in a timely manner and establish a policy on the accounting treatment of long outstanding amounts that are not recoverable;

(d) The Fund secretariat should consider raising a provision for doubtful debts in its financial records to reflect the recoverable amounts at the reporting date;

(e) The Fund secretariat should revalue all balances denominated in foreign currencies at the operational rate of exchange prevailing at the reporting date;

(f) The Fund should record the receivable and related income from the United Nations for the reimbursement of administrative expenses in the correct accounting period;

(g) The Fund should continue reconciling the balance with the United Nations to ensure differences are fully reconciled;

(h) The Fund secretariat should upload the correct accrual amounts from the accounts payable module into the Lawson system and adjust its accounts for differences noted;

(i) The Fund secretariat should perform regular monthly reconciliations between the accounts payable module and the general ledger;

(j) The Fund secretariat should: (i) reallocate debit balances in accounts payable to accounts receivable; and (ii) complete the data cleansing exercise to ensure that all the amounts included in accounts payable are valid payables;

(k) The Fund secretariat should develop an ageing tool to analyse benefits payable;

(l) The Fund should comply with the submission dates for financial statements as required by the Financial Regulations and Rules;

(m) The Fund should develop and implement accounting policies that have a clear basis for how transactions are accounted for in the accounting records of the Fund and ensure that all accounting policies are clearly defined and disclosed in the financial statements;

(n) The Fund should compile reconciliations or working papers for all line items on the financial statements and prepare supporting schedules of calculations or adjustments that are in agreement with the book of entries;

(o) The Investment Management Division should make a complete disclosure in its financial statements of the investments it manages for the United Nations University Endowment Fund;

(p) The Investment Management Division should reconsider its formal arrangements for providing a fund management service to third parties;

(q) The Investment Management Division should continue to implement its newly established Risk Management Manual;

(r) The Investment Management Division should undertake a case-by-case review to identify lessons to be learned in respect of all realized investment losses for 2008-2009, and current ongoing unrealized loss positions;

(s) The Investment Management Division should provide a clear description and disclosure of investments in the financial statements, by tabulating separately gains and losses on the sale of investments, as well as by disclosing all unrealized gains and losses as at the balance sheet date;

(t) The Fund should enhance its disclosure of the major actuarial assumptions and changes in relation to the valuation of the end-of-service liabilities in the notes to the financial statements;

(u) The Fund should develop a funding plan for the end-of-service liabilities for the consideration of its governing body;

(v) The Fund should consider a revision of its policy for the valuation of annual leave liability in its implementation of IPSAS;

(w) The Fund secretariat should reconcile monthly contributions from member organizations and follow up on unreconciled items in a timely manner;

(x) The Fund secretariat should: (i) establish systems to verify the accuracy of the information provided by the member organizations prior to year-end closing; and (ii) ensure that reconciliations are performed and verified before the financial statements are finalized;

(y) The Fund secretariat should implement procedures to reconcile the PENSYS payroll to information in the Lawson system on a regular basis.

The Board's other recommendations appear in paragraphs 30, 51, 75, 144, 145, 149, 153, 168, 174, 180, 188, 193, 195, 202, 204 and 206 of the present report.

A. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements of the United Nations Joint Staff Pension Fund and has reviewed its operations for the biennium ended 31 December 2009 in accordance with General Assembly resolution 74 (I). The audit was conducted in conformity with article 14 (b) of the Regulations and Rules of the Fund and the International Standards on Auditing. Those Standards require that the Board complies with ethical requirements and that it plans and performs the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of the Fund as at 31 December 2009 and the results of its operations and cash flows for the biennium then ended, in accordance with the United Nations system accounting standards. This included an assessment as to whether the expenditures recorded in the financial statements had been incurred for the purposes approved by the governing body and whether income and expenditures had been properly classified and recorded in accordance with the Regulations and Rules of the Fund. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews of the Fund's operations under United Nations financial regulation 7.5. This requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the Fund's operations. The General Assembly has also requested the Board to follow up on previous recommendations and to report to it accordingly. These matters are addressed in the relevant sections of the present report.

4. The Board continues to report the results of audits to the Fund in the form of management letters containing detailed observations and recommendations. This practice allows for ongoing dialogue with the Fund. In this regard, two management letters were issued covering the period under review.

5. The Board coordinates with OIOS in the planning of its audits to avoid duplication of efforts and to determine the extent of reliance that could be placed on the latter's work.

6. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly, including with respect to specific requests from the Assembly and the Advisory Committee on Administrative and Budgetary Questions. In particular, the Advisory Committee in its report contained in document A/63/474 has requested the Board to:

(a) Strengthen its validation process with a view to improving its ability to evaluate the results and impact of the efforts of the Fund to implement the Board's recommendations;

(b) Continue to closely monitor the application of IPSAS and the preparatory process for enterprise resource planning and IPSAS;

(c) Follow-up on the incomplete risk-based methodological framework of the Internal Audit Division of OIOS and the low completion rate on planned assignments.

7. The Board's observations and conclusions were discussed with the Fund, whose views have been appropriately reflected in the present report.

8. The recommendations contained in the present report do not address the steps that the Fund may wish to consider with respect to officials for instances of non-compliance with the Financial Regulations and Rules, administrative instructions and other related directives.

B. Findings and recommendations

1. Follow-up to previous recommendations

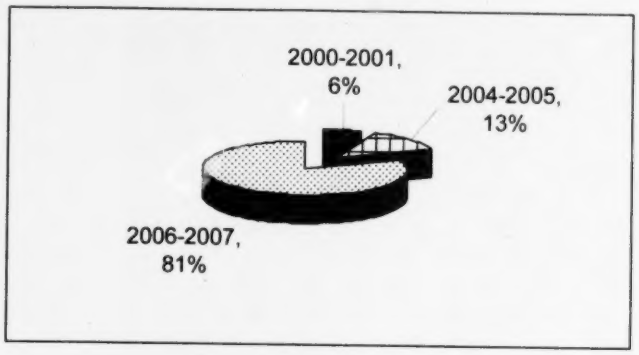
9. Of the 27 recommendations made for the biennium 2006-2007, 10 (37 per cent) were fully implemented; 15 (55 per cent) were under implementation; 1 (4 per cent) was not implemented; and 1 (4 per cent) was overtaken by events. Details of the status of implementation of these recommendations are shown in annex I below.

10. The one recommendation that was not implemented related to the reconciliation of contributions from member organizations. The Fund informed the Board that it had come to the conclusion that the only way to reconcile contributions on a real-time basis was with a system that would invoice organizations for their contributions each month and that such a system would require major changes to current procedures and systems. It would also require the Fund to have direct access to the human resources and payroll information of the member organizations. The Fund had begun to undertake preliminary steps to develop prototypes of systems and procedures that would be required to implement such an invoicing system.

11. The one recommendation that was overtaken by events related to verification of continuing eligibility of children for child's benefit, which was superseded by the decision of the General Assembly in its resolution 63/252 to delete the provision that a child must remain unmarried to be entitled to a benefit under article 36 of the Regulations and Rules of the Fund.

12. In response to the request of the Advisory Committee (see A/59/736, para. 8), the Board evaluated the ageing of its previous recommendations that had not yet been fully implemented and noted that of the 15 partially implemented and 1 unimplemented recommendation, 1 (6 per cent) related to the period 2000-2001; 2 (13 per cent) to 2004-2005; and 13 (81 per cent) related to 2006-2007, as indicated in figure I.

Figure I
Ageing of recommendations under implementation/not implemented for previous bienniums



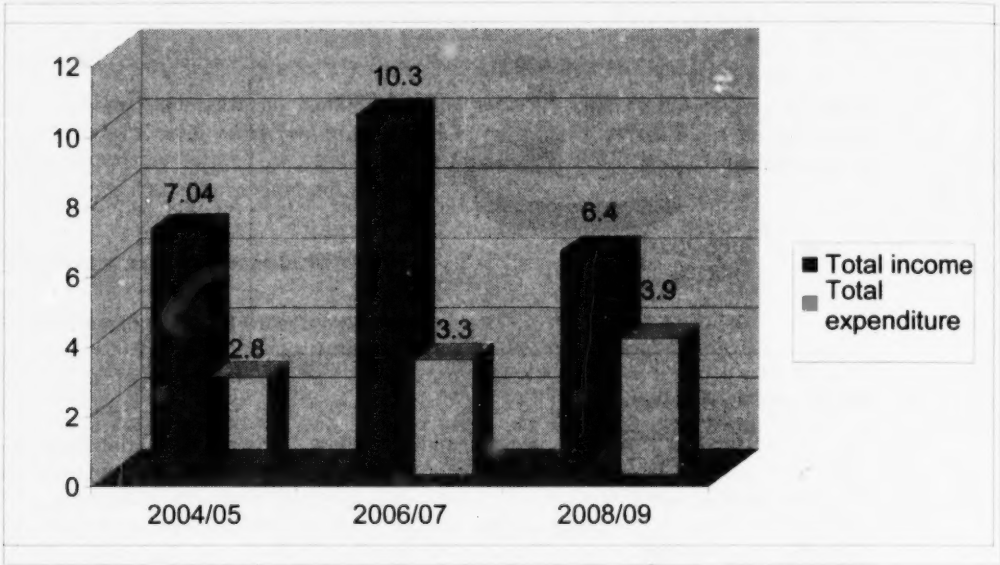
2. Financial overview

13. Total income for the period under review (comprising contributions, investment income, interest earned on contributions and other income) amounted to $6.4 billion, while total expenditure (comprising payment of benefits, administrative expenses, the Emergency Fund and the change in after-service health insurance and end-of-service liabilities) amounted to $3.9 billion, giving an excess of income over expenditure of $2.6 billion.

14. Total pension contributions increased by 19 per cent, to $3.7 billion (compared with $3.1 billion in the biennium 2006-2007). The main factor reported by the Fund in accounting for the decrease in total income was the 62 per cent decline in income from investments during the biennium. That reduction was precipitated by the economic crisis in the world's financial markets, which led to corresponding smaller realized profits and losses on the sale of investments.

15. Total expenditure (comprising benefit payments and administrative expenses) amounted to $3.9 billion, compared with $3.3 billion for the previous biennium, an increase of 18 per cent. Payment of benefits represented 97 per cent of expenditure and increased by 18 per cent to $3.8 billion (compared with $3.2 billion in 2006-2007). This resulted in an excess of income over expenditure of $2.6 billion, compared with an excess of $7 billion in the preceding biennium. The increase in expenditure was mainly attributable to the increase in payment of benefits as, overall, the Fund is an ageing one. Comparative income and expenditure for the financial periods 2004-2005, 2006-2007 and 2008-2009 are shown in figure II.

Figure II
Comparative income and expenditure
(Billions of United States dollars)



16. There were 117,580 Fund participants as at 31 December 2009, compared with 106,566 in 2007. Membership increased by 10 per cent during the biennium, compared with 13.8 per cent during the biennium 2006-2007. The number of periodic benefits granted for the biennium 2008-2009 was 61,841 compared with 58,084 for the previous biennium (a 6 per cent increase).

17. The market value of the investment portfolio of the Fund as at 31 December 2009 was $36.7 billion (a decrease of $4.7 billion, or 11 per cent), compared with $41.4 billion as at 31 December 2007 and $31.4 billion as at 31 December 2005. The book value of the investment portfolio increased by 7 per cent, from $30 billion at the end of 2007 to $32.1 billion as at 31 December 2009.

18. Income from investments decreased by $4.5 billion to reach $2.7 billion for the biennium (compared with $7.2 billion in 2006-2007). The challenging financial environment has resulted in lower market values for investment assets at 31 December 2009, as well as much lower investment income.

19. The last actuarial valuation, conducted as at 31 December 2009, determined that the actuarial assets of the Fund adequately covered the actuarial value of accrued benefit entitlements. This actuarial valuation was tabled at the June 2010 meeting of the Committee of Actuaries and the financial statements were updated to reflect the results of this valuation. The actuarial valuation indicated that there was an actuarial deficit of 0.38 per cent on the required rate to attain the actuarial balance of the Fund. According to the actuaries, this deficit does not indicate that there is a deficit in the ability of the Fund to meet current obligations, rather it is an indication of the effect that a continuation of the present contribution rate of 23.70 per cent of pensionable remuneration will have over the future life of the Fund, based on various assumptions.

20. The 2009 actuarial valuation indicated that there were no changes to the assumptions. However, in the light of the recent significant decrease in the market value of the Fund's assets, the global economic condition and outlook, and because future investment returns and long-term inflation may be less that experienced in prior years, the Pension Board, on the recommendation of the Committee of Actuaries, agreed to add a fourth set of real rates of investment return and long-term inflation assumptions for the 2009 actuarial valuation, which would include a 2 per cent real rate of investment return assumption and an inflation assumption of 3 per cent per annum.

21. Note C to the financial statements reflects an asset actuarial value of $38.1 billion ($35.6 billion in 2007), representing an increase of 7 per cent. The note also reflects an accrued liability without future pension adjustment of $27.3 billion ($24.2 billion in 2007) and $41.9 billion with future pension adjustment ($34.3 billion in 2007) which represents a 140 per cent and 91 per cent funded ratio without future pension adjustment and with future pension adjustment respectively. A decrease was recorded in these two ratios compared with 2007, and the details are provided in note C to the financial statements. For a complete analysis of the actuarial position of the Fund, reference should be made to the actuarial report, as well as the Committee of Actuaries report thereon.

3. Progress towards the implementation of International Public Sector Accounting Standards

22. In accordance with General Assembly resolution 61/233 and in response to the comments of the Advisory Committee on Administrative and Budgetary Questions in its report contained in document A/61/350, the Board again performed a gap analysis relating to the implementation of IPSAS and of new or upgraded enterprise resource planning systems. The Advisory Committee had commented on the desirability of such systems taking fully into account the detailed requirements of IPSAS.

23. In its report on the financial statement of the Fund for the biennium ended 31 December 2007 (A/63/9, annex IX, para. 62), the Board noted that the Fund did not have an IPSAS implementation plan. In paragraph 64 of the report, the Board recommended that the Fund should adopt an appropriate accounting framework and standard for its activities and develop a plan to implement the adopted standards. The Fund has, after a significant delay, decided to implement IPSAS with the approval of its Audit Committee. The planned implementation date is 1 January 2012.

24. The Fund informed the Board that it had requested the Pension Board for two additional specialist posts and $100,000 for the appointment of a consultant to assist with the IPSAS implementation plan. The Pension Board did not approve the Fund's request for additional posts, but approved $200,000 for the appointment of a consultant. The Fund informed the Board of Auditors that this lack of resources made it difficult to proceed with the implementation plan. Steps to implement IPSAS included developing accounting policies and revising the Financial Regulations and Rules, and currently no staff were dedicated to this project.

25. A consultant was engaged in May 2010 to develop an IPSAS implementation plan. The Board noted that the draft plan did not include the involvement of stakeholders other than the Financial Services Section, the Investment Management

Division and the Information Management Systems Service. The Board is of the view that other stakeholders (such as the legal unit of the Fund and human resources) should be involved in the plan. Furthermore, although the plan mentioned the revision of the Financial Regulations and Rules it did not specifically detail which aspects of the Financial Regulations and Rules would need to be revised. The plan also noted that there were no dedicated staff designated to the IPSAS project other than the consultant and a Chief Finance Officer who has not yet been appointed.

26. The Board emphasizes the need for the timely implementation of IPSAS for the Fund, especially IAS 26, which relates to accounting for pension benefits, since the United Nations system accounting standards are not entirely appropriate for the Pension Fund. The United Nations system accounting standards do not address adequately the essential rules and prescribed disclosures for the financial statements. This leads to financial statements which, although compliant with the United Nations system accounting standards, lack details that would be relevant and necessary for a range of users.

27. **The Fund agreed with the Board's recommendation to: (a) finalize and approve its IPSAS implementation plan; (b) identify and involve other stakeholders in the IPSAS implementation project; and (c) provide details on what aspects of the Financial Regulations and Rules would need to be revised.**

4. Statement of income and expenditure

Differences between expenditure summary schedules and the amount disclosed by the Fund

28. The Board noted that the figure for total administrative expenses at the end of the biennium was $120,304,466, based on the expenditure summary schedule of the general ledger. The amount disclosed by the Fund in the financial statements, however, was $118,969,300, resulting in a difference of $1,335,166. The Board noted that the difference largely consisted of two items, in amounts of $132,301 and $1,203,050. The difference of $132,301 related to extrabudgetary costs that were not included in the amount disclosed by the Fund. The Fund informed the Board that the extrabudgetary costs were not disclosed because they would be reimbursed by the organizations members of the Fund pursuant to a recommendation of the Pension Board. The Board of Auditors is of the view that a receivable for the extrabudgetary cost should have been raised, given that the amount had not been reimbursed to the Fund by 31 December 2009.

29. The Fund informed the Board that the difference of $1,203,050 related to a manual adjustment to administrative expenses on the financial statements to adjust for unliquidated obligations that would not be paid after period end.

30. **The Fund agreed with the Board's recommendation to raise a receivable and income for amounts owing to the Fund.**

Differences relating to accruals raised

31. Paragraph 41 of the United Nations system accounting standards states that "obligations unliquidated at the end of a financial period which continue to represent a charge against the resources of the organization should be maintained if the relevant regulations or rules so permit, and shown as a liability in the accounts.

Any other remaining unliquidated obligations should be cancelled. Where obligations remain a valid charge but are required to be cancelled because of time limits under the relevant regulations or rules, corresponding new obligations should be established against the resources of the current financial period".

32. The Board noted the balance related to other payables included $12.2 million, which consisted of $1.2 million of accruals and $11 million of unliquidated obligations recorded in the prior period that should have been reversed in the current period. This may be attributed to an inadequate financial statement preparation process and/or weaknesses in controls which should have detected the amounts to be reversed. Other payables were therefore overstated by these amounts.

33. **The Fund agreed with Board's recommendation to: (a) reverse all prior period unliquidated obligations and accruals as they are paid; and (b) address the weakness in controls that resulted in accruals for items that have already been paid.**

Rental for unoccupied floor space

34. The Board noted that in May 2008 the Fund entered into a contract to lease new office space for the Investment Management Division. The Division started paying rent for the space in October 2008 at a rate of approximately $94,000 per month, but only moved into the new office space in December 2009. This meant that, by November 2009, the Fund had incurred rent of approximately $1,222,000 for space that was not utilized by the Fund.

35. The Board was concerned that funds were spent for approximately a year on a service that the Fund was not using. This expenditure could be considered in part to be both fruitless and wasteful. (Such expenditure is an indication of inadequate planning by the various offices contributing to this project.)

36. The Investment Management Division informed the Board that the delay in occupying the space was due to policy changes in the beginning of the project which the Facilities Management Service of the United Nations Secretariat did not consistently apply to the Investment Management Division and the Fund secretariat; the mid-course application of standards under the capital master plan; and construction stoppages related to the distribution of tasks between the building's union labour and the Facilities Management Service for critical items such as the installation of voice and electronic cables.

5. Statement of assets, liabilities and reserves and fund balances

37. In its report on the biennium 2006-2007 (A/63/9, annex IX), the Board issued six recommendations on matters related to the financial statement. Of the six recommendations, only two were implemented, while four were under implementation. The majority of reiterated recommendations relate to long outstanding balances in accounts payable and accounts receivable, which are going to be addressed by the data cleansing exercise that is under way at the Fund.

Long overdue overpayment receivables

38. In its report on the biennium 2006-2007 (A/63/9, annex IX), the Board noted that there were overpayments amounting to $2.8 million, the recovery of which was long outstanding. The Board recommended that the Fund secretariat implement

improved controls and procedures to ensure that amounts outstanding from the estates of deceased beneficiaries are recovered in a timely manner and establish a policy on the accounting treatment of long outstanding amounts that are not recoverable.

39. Article 43 of the Regulations and Rules of the Fund, on recovery of indebtedness to the Fund, states that the Pension Board "may deduct from any benefit payable under these Regulations to a participant, or on his or her account, the amount of any indebtedness to the Fund by the participant or by any beneficiary or third person to whom payment has been made otherwise than in accordance with these Regulations, including interest and costs, where appropriate".

40. As at 31 December 2009, the balance of overpayments has increased to $4.9 million. The review by the Board of Auditors of the age analysis of overpayments revealed that there were overpayments that have not been collected by the Fund for more than five years since the overpayment was made. Of the $4.9 million in overpayments, $2.3 million had been outstanding for over three years and the Board was concerned about the recoverability of the long outstanding receivables and that article 43 of the Regulations and Rules of the Fund was not being enforced. The Board also noted that there were inadequate procedures to follow up on long outstanding overpayments.

Provision for doubtful debts on the financial statements

41. The Board noted that the Fund secretariat had not considered recognizing a provision for doubtful debts for the overpayments where recoverability was doubtful at the reporting date, as the Fund did not have an accounting policy or mechanism to consider impairment of long outstanding overpayments. Given the long period that some of the overpayments have been outstanding, it would be prudent for the Fund to consider raising a provision for this in its financial records.

42. The Fund informed the Board that it had drafted a policy on the accounting treatment of accounts receivable and write-off of uncollectible receivables, including provision for doubtful receivables. Furthermore, it had also established a team to address the long outstanding overpayments. Its procedures would include regular communication and correspondence with the beneficiaries in an effort to collect the outstanding balances.

43. **The Fund secretariat agreed with the Board's reiterated recommendation to implement improved controls to ensure that amounts outstanding are recovered in a timely manner and establish a policy on the accounting treatment of long outstanding amounts that are not recoverable.**

44. **The Fund secretariat agreed with the Board's recommendation to consider raising a provision for doubtful debts in its financial records to reflect the recoverable amounts at the reporting date.**

Valuation of foreign currency denominated balances

45. The Board noted that the Fund used the operational exchange rates as at 1 December 2009 in translating bank accounts that were denominated in currencies other than the United States dollar, instead of the operational exchange rate as at 31 December 2009, resulting in an overstatement of $138,779 of the bank and cash balance.

46. The Board also noted that the balances of overpayments were not revalued using the United Nations operational rate of exchange prevailing at the reporting date as required by the United Nations system accounting standards (para. 30 (i)). Thus certain balances denominated in foreign currencies were misstated.

47. The Fund informed the Board that it used the operational rate of exchange as at 1 December as this was loaded on the Lawson accounting system to translate all foreign currency denominated balances.

48. **The Fund secretariat agreed with the Board's recommendation to revalue all balances denominated in foreign currencies at the operational rate of exchange prevailing at the reporting date.**

Provision for non-recovery of foreign tax receivables

49. In its previous report (A/63/9, annex IX, para. 31), the Board noted that the Fund had a provision for a foreign tax receivable of $10.2 million covering amounts due to the Fund dating back as far as 1981, and recommended that the Fund enhance its efforts to recover the outstanding amounts (ibid., para. 33). The Board noted that the provision for foreign tax receivables had now decreased to $9.7 million, a decrease of 5 per cent compared with the prior biennium.

50. The Investment Management Division stated that procedures for collection of the current tax reclaims were in place and it continued to work with the custodian bank to collect the outstanding balances. It is of concern that so little improvement has been made regarding this matter during the biennium.

51. **The Investment Management Division agreed with the Board's reiterated recommendation to take urgent steps to recover outstanding amounts of foreign taxes.**

Reimbursement of administrative expenses from the United Nations

52. The United Nations pays administrative expenses on behalf of the Fund. The Fund pays the United Nations in advance on a monthly basis an estimate of the Fund's administrative expenses. Pursuant to General Assembly resolution 53/210, the United Nations reimburses the Fund one third of the administrative expenses and one sixth of internal and external audit expenses.

53. Each month the Fund raises a receivable for the portion of administrative expenses that are due to be reimbursed by the United Nations and records it as other income. The Board noted that an accrual for the portion of administrative expenses due from the United Nations for the month of December 2009 was posted in January 2010. This was not the correct accounting period. As a result, other income and accounts receivable for 2008-2009 were understated by $775,925.

54. **The Fund agreed with the Board's recommendation that it should record the receivable and related income from the United Nations for the reimbursement of administrative expenses in the correct accounting period.**

Differences between amount confirmed by the United Nations and amount disclosed by the Fund

55. In its previous report (A/63/9, annex IX), the Board noted that there was a difference of $41,045 between the amount recorded by the Fund as due to the

United Nations and the confirmation received from the United Nations. The Board recommended that the Fund continue reconciling the balance with the United Nations to ensure that differences were fully reconciled.

56. The Board again noted a difference at 31 December 2009 between the confirmation from the United Nations and the amount recorded by the Fund as payable to or due from the United Nations. This difference was subsequently explained and reconciled by the United Nations and the Fund. The Board noted, however, that the existence of a difference was an indication that the Fund was still not performing regular reconciliations between amounts paid in advance to the United Nations and the amount paid by the Accounts Division of the United Nations on behalf of the Fund.

57. **The Fund agreed with the Board's reiterated recommendation to continue reconciling the balance with the United Nations to ensure that differences are fully reconciled.**

Differences between Lawson (general ledger) and accounts payable module balances

58. In its previous report (A/63/9, annex IX), the Board noted that there were differences between the accounts payable module and the Lawson system (general ledger). The Board recommended that the Fund secretariat upload the correct accrual amounts from the accounts payable module into the Lawson system and adjust its accounts for the differences noted. The Pension Board has also commented that the Fund secretariat should review the audit recommendations with regard to differences in accounting records in the general ledger and detailed account level (A/63/9, chap. VII, para. 259).

59. The Board of Auditors noted that the general ledger accounts on the Lawson system showed entries without the details processed into the general ledger accounts for all open payables at biennium end. The detailed entries showing the vendor name, amounts and voucher numbers were only detailed on the accounts payable module, and the vendor accounts were linked to the general ledger accounts on Lawson to allow for review of the details making up the global entries.

60. The Board compared significant accounts payable balances on the general ledger to the balance in the accounts payable module and noted a total difference of $5.4 million ($1.3 million in 2007 between the general ledger and the accounts payable module. This indicated that benefits payable were overstated by $5.4 million as at 31 December 2009.

61. These differences arose because the Fund did not have a process of reconciling the open payables on the accounts payable module to the general ledger control accounts. The Fund indicated that this was due to staff constraints. There is a risk that long overdue amounts may not be cleared in a timely manner and errors and omissions may not be corrected in time, resulting in the misstatement of benefits payable balances in the financial statements.

62. The Fund informed the Board that one of the reconciling elements was a general ledger clearing account with a balance of $3.6 million for the monthly payroll that did not have accrual codes set up in the accounts payable module and would be adjusted with corrective entries that would be reflected in the 2010 financial year. The Fund stated that the other reconciling item between the general ledger and the accounts payable module was limited to $1.8 million, which was in

line with the 2007 difference of $1.3 million. The Fund indicated that it had set up a data cleansing project to review all open payables and to analyse and correct the difference between the general ledger and the accounts payable module.

63. **The Fund secretariat agreed with the Board's reiterated recommendation to upload the correct accrual amounts from the accounts payable module into the Lawson system and adjusts its accounts for differences noted.**

64. **The Fund secretariat also agreed with the Board's recommendation to perform regular monthly reconciliations between the accounts payable module and the general ledger.**

Debit balances in accounts payable

65. The Board noted that balances from the legacy system were included in the accounts payable module, some of which were debit balances that were not reallocated to accounts receivable at the reporting date. The Fund informed the Board that with the introduction of the accounts receivable subsystem, all legitimate accounts receivable recoverable items were migrated from the accounts payable module into the accounts receivable module and that the cases identified by the Board were on the list of those to be reviewed in the context of the Fund's data cleansing unit exercise.

66. The Board was concerned that there appeared to be long outstanding items included in the accounts payable module and, given that the Fund did not maintain an age analysis of the accounts payable module, there was a risk of misstatement of accounts payable and accounts receivable.

67. **The Fund secretariat agreed with the Board's recommendation to: (a) reallocate debit balances in accounts payable to accounts receivable; and (b) complete the data cleansing exercise to ensure that all amounts included in accounts payable were valid payables.**

Benefits payable age analysis

68. In its previous report (A/63/9, annex IX), the Board noted that the Fund did not have tools to conduct ageing analysis or analyse long overdue vendor accounts for benefits payable on the accounts payable module. As a result, some payables that had been paid out to beneficiaries were not cleared and remained as payables in the accounts payable module. The Board recommended that the Fund develop a tool for ageing balances related to payables in order to keep control of long overdue payables and to perform a reconciliation of benefits payable.

69. The Fund stated that in preparation for the review of the accounts payable system, an initial analysis was performed, but owing to limited availability of staff resources and as a result of recent staff movements and upcoming staff retirements, the Financial Services Section had limited availability of experienced staff of a level required to perform the accounts payable analysis. The process was therefore expected to carry over well into 2010. As at 31 December 2009, the Fund had a total balance of $29 million for benefits payable. In May 2010 there was still no ageing tool to analyse benefits payable

70. **The Fund secretariat agreed with the Board's reiterated recommendation to develop an aging tool to analyse benefits payable.**

71. The Fund informed the Board that staff conducting the data cleansing exercise would work closely with the Payments Unit and the Accounts Unit to review and monitor all ongoing cases and that accounts payable ageing reports would be developed.

Forfeiture and clearing of benefits payable

72. Article 46 of the Regulations and Rules of the Fund on forfeiture of benefits states:

> "(a) The right to a withdrawal settlement or residual settlement shall be forfeited if for two years after payment has been due the beneficiary has failed to submit payment instructions or has failed or refused to accept payment.
>
> "(b) The right to a retirement, early retirement, deferred retirement or disability benefit shall be forfeited if, for five years after the first payment has been due, the beneficiary has failed to submit payment instructions or has failed or refused to accept payment.
>
> "(c) The right to continued periodic payments of a retirement, early retirement, deferred retirement or disability benefit shall be forfeited if, for two years after a periodic payment has been due, the beneficiary has failed to submit payment instructions or has failed or refused to accept payment."

73. The Board reviewed a sample of benefits payable to beneficiaries and noted that there were benefits amounting to $196,114 that had been outstanding for more than two years after they first fell due. These had not been forfeited and cleared from the open payables at 31 December 2009.

74. The Fund informed the Board that the data cleansing exercise would ensure that current payables would be forfeited if they were found to comply with article 46 of the Regulations and Rules of the Fund, and that the accounts payable ageing report, once in place, would provide an adequate monitoring tool to ensure that forfeitures were made in a timely manner.

75. **The Fund agreed with the Board's recommendation to apply article 46 of the Regulations and Rules of the Fund by adjusting benefit payables related to all amounts that are due for forfeiture.**

6. Financial statement disclosures

Late submission of financial statements

76. Regulation 6.5 of the Financial Regulations and Rules states: "The accounts for the financial period, except those for peacekeeping operations with special accounts, shall be submitted by the Secretary-General to the Board of Auditors no later than 31 March following the end of the financial period."

77. The Fund submitted certified financial statements to the Board eight weeks late, on 24 May 2010. This was in contravention of financial regulation 6.5.

78. The Fund stated that it was unable to comply with the 31 March deadline owing to the reconciliation procedures for payments from organizations members of the Fund and owing to receipt and verification of external reporting from the master record keeper. The Fund also encountered some issues regarding the reporting of tax receivables and additional disclosures and recognition of after-service health insurance and end-of-service liabilities, since it received the actuarial valuation for after-service health insurance only on 22 March 2010.

79. **The Board recommends that the Fund comply with the submission dates for financial statements as required by the Financial Regulations and Rules of the United Nations.**

Accounting policy

80. The United Nations system accounting standards state that the financial statements should have a note stating all significant accounting policies, with cross references, as necessary, to individual statements (para. 15).

81. The Board reviewed the accounting policies of the Fund as presented in the financial statements and noted the following weaknesses:

(a) The Fund presented several items under the note on the summary of significant accounting policies, including investments, contributions, benefits, principal of the fund, the Emergency Fund and other income. The description in the policies did not, however, reflect how the related transactions are accounted for in the books of the Fund, and were thus, in effect, not accounting policies;

(b) The contributions accounting policy only stated the percentages that were contributed by the participants and the member organizations, which could have been shown under background information on the Fund; it did not provide detail on how contributions are accounted for in the accounting records of the Fund;

(c) The accounting policy for other income shown in the financial statements only described the type of income that was presented under other income, and did not describe how the income was accounted for in the accounting records of the Fund;

(d) No accounting policy was disclosed in the financial statements for provisions, administrative costs, determination of withdrawal liabilities at balance sheet dates, cash and cash equivalents, interest earned and non-expendable property.

82. In its report on the preparation of the financial statements, OIOS also recommended that the Fund document accounting policies for major components of the financial statements.

83. Lack of adequate accounting policies creates a risk that there may not be consistent application of accounting methods from period to period, and that users of the financial statements may not be able to understand what accounting policies were applied. The Fund informed the Board that as part of its IPSAS implementation project, it would develop adequate accounting policies.

84. **The Fund agreed with the Board's recommendation to develop and implement accounting policies that have a clear basis for how transactions are accounted for in the accounting records of the Fund and to ensure that all accounting policies are clearly defined and disclosed in the financial statements.**

Inadequate financial statement preparation process

85. Financial statements are an aggregation of transactions that have occurred during a period as recorded in the entity's book of entries. For the Fund, this includes the subsidiary ledgers that support the amounts recorded in the general ledger.

86. It is therefore essential, in order for the Fund to obtain assurance that transactions in its book of entries are reflected in the financial statements, that the Fund prepare reconciliations and supporting schedules for the financial statements that are in agreement with the recording of entries.

87. The Board noted that the Fund as part of its financial statement preparation process or its monthly accounting did not compile any reconciliations or working papers for all line items on the financial statements or prepare supporting schedules of calculations or adjustments that were in agreement with the book of entries.

88. The lack of financial statement reconciliations and supporting schedules that are in agreement with the book of entries, raises the risk that there would be no assurance that all the transactions as recorded in the book of entries have been reflected in the financial statements. Also, there could be misstatements or errors in or incorrect accounting of transactions in the general ledger that may not be noticed, which may lead to financial statements not being fairly presented.

89. **The Board recommends that the Fund compile reconciliations or working papers for all line items on the financial statements and prepare supporting schedules of calculations or adjustments that are in agreement with the book of entries.**

Disclosure for funds under management

90. Fiduciary responsibility for the investment of the assets of the United Nations University Endowment Fund resides with the Secretary-General of the United Nations. The Secretary-General has delegated such responsibilities to his Representative. In turn, the Representative of the Secretary-General has delegated the operational responsibility for the management of the investment of the assets of the Endowment Fund to the staff of the Pension Fund's Investment Management Division. The Board was not provided with a document that sets out the formal arrangements for the management of the Endowment Fund investments by the Division.

91. The Board considers the investment of the assets of the United Nations University Endowment Fund to be funds under management by the Investment Management Division. The Board noted that the Pension Fund did not disclose that it had funds under management in its financial statements. The financial statements submitted by United Nations University to the Board for the biennium ended 31 December 2009 indicated that its Endowment Fund managed by the Pension Fund (Investment Management Division) with a market value of $279 million, had suffered a loss of $54.9 million. The Board is concerned about these losses incurred on funds under management, as well as the apparent lack of formal arrangements.

92. **The Board recommends that the Investment Management Division make a complete disclosure in its financial statements of the investments it manages for the United Nations University Endowment Fund.**

93. **The Investment Management Division agreed with the Board's recommendation to reconsider its formal arrangements for providing a fund management service to third parties.**

7. Investment management

Portfolio risk management

94. Section II.B of the Standard Operating Investment Policy and Procedures (Investment Manual) (revised in 2009) requires the Investment Management Division to preserve the principal of the Fund in real terms, obtain optimal return without undue risk, and diversify the portfolio with respect to asset type, currency

and geography. In the light of the recent economic turmoil, the Board reviewed some of the Division's investment management methods and results.

95. Included in the net profit for the biennium on the sale of investments of $412 million were realized losses of $2.7 billion. In addition, there were unrealized losses of $1.9 billion included in the $4 billion of unrealized profit at 31 December 2009. The unrealized profit and positions are not separately disclosed or discernable in the financial statements. They are also not directly related to the losses incurred by the Investment Management Division on the funds it managed on behalf of the United Nations University Endowment Fund discussed in the previous section.

96. In connection with this matter, the Board notes the detailed clarification provided by the Investment Management Division, that the Endowment Fund was managed as a diversified portfolio. The Division noted that diversification, by definition, meant constructing a portfolio where some of the individual securities would sometime move in an opposite direction from each other. In a well-constructed diversified portfolio, some securities could and would drop or rise abruptly. The Division stated that it was in the nature of a well-diversified portfolio to balance risk with returns. A deeper analysis had revealed the root causes of losses related to the Endowment Fund. Three of the biggest losses, of over 80 per cent, actually marked the start of the unprecedented financial crisis and happened in a very short time. Two of these losses belonged to holdings of United States Government-sponsored entities, which were perceived by the market as implicitly backed by the United States Government and risk free, and no investment fund could have predicted the decision the United States Government took not to protect the Government-sponsored entities. The second biggest unrealized loss also marked the beginning of the financial crisis, where, in just a weekend, liquidity disappeared after the Government intervention (and so stop-loss rules would not have precluded the consequent losses). In addition, the Division noted that the status of the Government-sponsored entities was still not resolved, and a favourable resolution might well have the potential of reducing the current unrealized loss.

97. The Investment Management Division stated that the Fund balanced risk (volatility) and returns, a fundamental balancing of two opposing forces which any investment fund had to manage delicately. Modern portfolio theory (introduced by Harry Markowitz in an article in 1952 and a book in 1959) had shown that for large funds such as the Pension Fund, the most critical decision was the asset allocation and not the individual security selection, as the returns were derived from prudent asset allocation targets and timely rebalancing of the targets. The volatility was controlled by prudent diversification. Diversification, by definition, meant selecting asset classes that were not highly correlated (i.e., which sometime move in opposite directions). Individual security selection played a relatively minor role in total portfolio return. The Investment Management Division also highlighted the careful rebalancing the Fund exhibited in the most volatile period in modern investment history. Even before the unprecedented financial crisis, the Fund had been adjusted by a reduction in equity allocation to preserve the capital of the Fund by going underweight in the most risky asset classes (the financial sector) and going overweight in a low volatility asset class (Government bonds). With the expert guidance of the Investments Committee and timely rebalancing as the crisis subsided, the Fund had increased its equity allocation to earn one of the largest gains in the history of the Fund in the 12 months through 31 March 2010.

98. The Board reviewed the position as at 30 September 2009 (during its interim audit), when the records of the Investment Management Division indicated that the market value of the Fund's total investment portfolio was $37 billion ($36.7 billion as at 31 December 2009). From this total portfolio value, the Board extracted all those investments that reflected unrealized losses of greater than 50 per cent of their purchase cost. These investments were in equities, real estate and bonds and reflected a cost of $8.47 billion, but had fallen to a market value of $6.51 billion, representing an unrealized loss of $1.96 billion as at that date. The Board analysed the unrealized losses included in the $1.96 billion and noted that there were individual investments that had unrealized losses ranging to up to 94 per cent of the investment cost.

99. On the other hand, investments with unrealized gains of greater than 50 per cent reflected a cost of $3.36 billion and a market value of $6.97 billion, representing an unrealized gain of $3.61 billion as at 30 September 2009. The data on gains and losses presented in the following three tables does not take into account interest and dividends earned while the investments were held by the Fund, and the Board indicates that after accounting for interest and dividends, the percentage loss as calculated from the market value and the purchase cost would be lower than what is reflected in column 5 in table 1, in table 3 and in table 5. The table below (table 1) reflects the investments with the 10 most significant unrealized losses.

Table 1
Ten investments with the largest unrealized losses as at 30 September 2009 (percentage loss does not account for income and dividends)
(United States dollars)

	Market value	*Purchase cost*	*Unrealized loss*	*Percentage loss*
1	6 427 120	100 490 000	(94 062 880)	94
2	18 910 204	83 177 385	(64 267 181)	77
3	36 850 800	89 030 958	(52 180 158)	59
4	3 423 200	49 491 250	(46 068 050)	93
5	19 482 884	63 989 810	(44 506 926)	70
6	28 700 000	63 252 130	(34 552 130)	55
7	5 950 000	34 853 350	(28 903 350)	83
8	20 109 673	41 662 985	(21 553 312)	52
9	3 502 732	19 876 059	(16 373 327)	82
10	5 396 818	14 534 390	(9 137 572)	63

Source: Northern Trust portfolio report.

100. The Investment Management Division acknowledged that much of the losses was due to the unprecedented financial crisis and one of most volatile markets experienced since the Great Depression. During the same time period, the Fund also had significant unrealized gains, as illustrated in table 2.

Table 2
Ten investments with the largest unrealized gains as at 30 September 2009 (percentage gain does not account for income and dividends)
(United States dollars)

	Market value	*Purchase cost*	*Unrealized gain*	*Percentage gain*
1	347 707 384	116 872 367	230 835 017	198
2	293 592 600	93 858 383	199 734 217	213
3	102 155 366	16 522 150	85 633 216	518
4	86 211 400	13 361 382	72 850 018	545
5	98 061 120	27 419 481	70 641 639	258
6	94 598 550	29 454 824	65 143 726	221
7	82 040 000	24 164 443	57 875 557	240
8	62 518 530	8 526 818	53 991 713	633
9	65 825 873	20 993 651	44 832 222	214
10	60 565 108	16 713 588	43 851 521	262

Source: Northern Trust portfolio report.

101. The Board further extracted the 10 largest realized losses on investments up to 30 September 2009, as reflected in table 3 below.

Table 3
Ten investments with the largest realized losses from 1 January 2008 to 30 September 2009 (percentage loss does not account for income and dividends)
(United States dollars)

	Purchase cost	*Selling price*	*Realized loss*	*Percentage loss*
1	62 070 811	18 913 600	(43 157 212)	70
2	55 174 054	18 499 478	(36 674 577)	66
3	53 009 579	17 176 545	(35 833 034)	68
4	35 052 425	5 680 216	(29 372 209)	84
5	44 105 529	17 856 480	(26 249 049)	60
6	37 167 034	12 937 023	(24 230 011)	65
7	43 383 323	19 685 868	(23 697 455)	55
8	26 504 789	4 075 076	(22 429 714)	85
9	26 504 789	6 545 896	(19 958 893)	75
10	22 019 464	4 905 550	(17 113 913)	78

Source: Northern Trust portfolio report.

102. For a balanced perspective, the Board also notes that during the same time period the Investment Management Division also earned significant realized gains, as shown in table 4.

Table 4
Ten investments with the largest realized gains from 1 January 2008 to 30 September 2009 (percentage gain does not account for income and dividends)
(United States dollars)

	Purchase cost	*Sale proceeds*	*Total realized gain*	*Percentage gain*
1	172 874 024	231 757 516	58 883 492	34
2	53 581 133	100 746 729	47 165 597	88
3	65 722 149	109 798 966	44 076 817	67
4	22 876 049	66 198 036	43 321 987	189
5	95 697 108	134 712 660	39 015 552	41
6	110 446 313	148 049 449	37 603 136	34
7	7 019 006	42 708 979	35 689 973	508
8	55 737 889	88 568 249	32 830 360	59
9	60 886 711	92 789 597	31 902 886	52
10	6 664 884	35 000 000	28 335 116	425

Source: Northern Trust portfolio report.

103. In an effort to establish the trend beyond the financial statement date, the Board extracted the realized losses on investment transactions from January 2010 to 15 May 2010, and identified total realized losses of approximately $250 million. Total realized gains for the same period amounted to approximately $364 million. The 10 largest investment losses ranging from 5 per cent to 58 per cent are reflected in table 5.

Table 5
Ten investments with the largest realized losses[a] from January 2010 to 15 May 2010 (percentage loss does not account for income and dividends)
(United States dollars)

	Sales proceeds	*Cost*	*Total realized loss*	*Percentage loss*
1	80 484 479	84 487 626	(4 003 147)	5
2	80 409 058	84 487 626	(4 078 568)	5
3	83 052 799	87 368 540	(4 315 742)	5
4	10 565 689	15 493 235	(4 927 546)	32
5	4 091 878	9 547 172	(5 455 293)	57
6	4 033 970	9 547 172	(5 513 202)	58
7	13 236 616	19 739 577	(6 502 961)	33
8	21 596 894	28 619 933	(7 023 039)	25
9	18 571 561	26 137 142	(7 565 581)	29
10	18 319 563	26 137 142	(7 817 580)	30

Source: Northern Trust portfolio report.

[a] Some of the unrealized losses listed as at 30 September 2009 have not been realized as the investments are still retained by the Fund; some were realized between 1 October and 31 December 2009.

104. The top 10 investments with realized gains from 1 January 2010 to 31 May 2010 are reflected in table 6.

Table 6
Ten top investments with realized gains from 1 January 2010 to 31 May 2010 (percentage gain does not account for income and dividends)
(United States dollars)

	Sales proceeds	*Cost*	*Total realized gain*	*Percentage loss*
1	17 549 336	55 385 620	37 836 285	216
2	96 672 868	110 708 439	14 035 571	15
3	12 987 645	23 192 353	10 204 708	79
4	13 084 054	22 647 727	9 563 673	73
5	22 571 955	32 134 557	9 562 602	42
6	10 493 579	20 052 036	9 558 457	91
7	28 173 644	37 359 567	9 185 923	33
8	4 829 054	13 766 472	8 937 419	185
9	10 528 739	18 462 000	7 933 262	75
10	2 283 051	9 184 966	6 901 915	302

Source: Northern Trust portfolio report.

105. The guidelines for investments set out in the Investment Manual state that the Fund takes a long-term view as an investor. Temporary losses were therefore possible in turbulent or normal financial times. The Board was of the view, however, that some of the losses (realized and unrealized) were excessive and that on some investments the reversal of the losses (i.e., achievement of the required rate of return on invested monies) may only occur after a long time or the full reversal of such losses may never occur. This indicated that the Fund had not set a suitable tolerance level for losses to avoid excessive losses. In other words, the investment strategy of buy-and-hold could not respond to abnormal market conditions or adverse conditions in individual securities which had the potential of harming the capital of the Fund. The Investment Management Division continues to enhance its risk management processes and modernize its infrastructure to manage the risks in accordance with evolving market conditions and industry best practices.

106. The control processes regarding the purchase and sale of investments were documented, but the assessment of whether to hold positions was not so well defined. The Investment Manual did not adequately document the responses to identified risk, that is changing credit default swap ratios, or how to support sell/hold decisions in order to lock in profits, or how to minimize losses on an investment where the value is declining. Without such documented guidance, it will be difficult for a uniform approach to be taken by all investment staff.

107. The Board is of the view that the decision to hold an investment is as critical as a decision to buy or sell an investment. Without a comprehensive loss minimization strategy, that is, the establishment of loss limits within position limits, the Fund could incur, in turbulent economic times (for the economy in general or for particular sectors or investments), significant losses that would in turn abnormally

decrease the capital value of the Fund, or as also noted by the Committee of Actuaries, result in the investment return objectives not being met. The Board notes that the recently developed Risk Management Manual outlines a risk control that triggers a re-examination of the due diligence process and the continued basis for holding an investment in the event of a defined percentage unrealized loss. When a trade is made, it must be supported by proper due diligence and a sound basis. The investment rationale documents the basis for the trade. As the risk group monitors the unrealized losses on a continuous basis, this risk control will trigger a review of the investment rationale, and the continued basis for holding an investment if a loss threshold is breached. The risk group is also working with the master record keeper to produce the unrealized gains/losses report on a monthly basis.

108. The Board was informed that the Investment Management Division was implementing, during 2010, an updated risk, compliance and investment manual together with the selection of a risk analytics software programme. This will be followed, at a later date, by a risk budgeting system, which would manage and balance risk in all classes and portfolios of investments. These enhancements could, with proper application, assist the investment teams in assessing and addressing the risks in the positions taken. As a further risk management initiative the practice of utilizing only a single master record keeper (custodian) was being reconsidered. The Board notes that as the implementation of the risk analytics tool is completed, the risk group will have improved tools to monitor such market condition parameters on a continuous basis.

109. The Investment Management Division informed the Board that that in addition to the proposed risk management tool, it had since developed a Risk Management Manual and that it was working on strengthening the risk controls. In doing this, the Division had selected the risk analytics tool and created controls to cover various material risks to which the Fund is exposed. Some of those controls can be automated by software solutions, and some of them need to be implemented manually. Furthermore, the goals of the Division's risk management framework are the following:

(a) Create a risk manual that is actionable;

(b) Cover all the material risks to which the Fund is exposed;

(c) Create a foundation for implementing the controls;

(d) Map guiding principles encompassing the core values;

(e) Create a Risk Management Manual that is a living document, which can be adjusted to the current market conditions quickly;

(f) Address the past findings of all audit and consulting engagements.

110. Related to the Board's discussion on investment losses, it is concerned about the absence of appropriate disclosures in the financial statements relating to the breakdown of profits on the sale of investments reported for the biennium. While the limited disclosure is consistent with the cost conventions of the United Nations system accounting standards, it does not provide users with critical, relevant information about investment management. There is no separate disclosure of realized gains and losses, or of unrealized losses in closing investment positions.

111. **The Board recommends that the Investment Management Division continue to implement its newly developed Risk Management Manual.**

112. **The Board also recommends that the Investment Management Division undertake a case-by-case review to identify lessons to be learned in respect of all realized investment losses for 2008-2009, and current ongoing unrealized loss positions.**

113. **The Board further recommends that the Investment Management Division provide a clear description and disclosure of investments in the financial statements, by tabulating separately gains and losses on the sale of investments, as well as disclosing all unrealized gains and losses as at the balance sheet date.**

Investment Management Division's compliance with investment policies

114. The Board coordinated with OIOS to ensure that audit visits planned by the Board were considered by OIOS in selecting audits to be carried out. The OIOS audit in the area of investment compliance indicated that there was an overall need to strengthen the risk management and compliance governance framework and to enhance the related policies and procedures. OIOS noted that there was also a need for a clearly communicated investment strategy, including the identification and alignment of business requirements with resources.

115. OIOS performed an audit focused on compliance with the investment policies at the Investment Management Division and identified some critical actions, detailed below, that would need to be addressed by the Division to achieve an improvement in compliance with investment policies. All these recommendations were accepted by the management of the Division:

(a) Clearly define the strategic investment direction and establish an effective risk management and compliance framework, including a strategy for rebalancing the investment portfolio to established asset allocation targets and weights;

(b) Update the strategy on real estate, considering the market volatility and the approved new asset and sub-asset classes, including alternative investments, and the need for a real estate benchmark to be aligned with the current portfolio mix;

(c) Reassess the continued relevance of long-established service provider relationships with non-discretionary advisers, in the context of associated risks, conflicts of interest, obscured accountability, inadequate evaluation of performance, and the diminished role that may render the current arrangements less cost-effective and efficient;

(d) Reassess the reasonableness of thresholds for delegation of authority in the context of the growth in the portfolios since their establishment and the sub-delegations to the augmented management teams and investment officers, noting also that the same limits were given to all investment officers irrespective of experience and level;

(e) Clearly outline how the results of the 2006 asset-liability study are being applied to establish and/or modify the investment strategy, long-term goals and objectives, and currency and cash management functions;

(f) Review the oversight roles and responsibilities of the governing bodies and the Investments Committee with respect to risk management and compliance;

(g) Review the roles and responsibilities of selected areas within the Investment Management Division to ensure that they are clearly delineated and duties are sufficiently segregated, and that there is a mechanism for independent reporting by the Compliance Officer to the Representative of the Secretary-General and the Audit Committee;

(h) Adhere to the compliance policy requirement to report periodically to the Audit Committee on exceptions and effectively follow up on the implementation of compliance recommendations;

(i) Strengthen the compliance review programme in terms of coverage, scope and the need for an effective follow-up and enforcement mechanism with accountability for investment breaches;

(j) Ensure that the Investment Manual and policies related to investment, credit and compliance are updated and approved to, inter alia, provide a proper framework for the risk management and compliance functions;

(k) Incorporate a clause on responsible investment and related standards in the contracts with the small-capitalization managers and develop procedures for evaluating the managers' performance;

(l) Strengthen the monitoring of personal investments and financial disclosure to avoid conflict of interest situations.

116. In the February 2010 meeting of the Audit Committee, OIOS noted that the Investment Management Division had made significant progress in addressing the open recommendations and recommended closing 37 of the open recommendations, leaving 9 recommendations that the Division was still working on. According to OIOS, the following achievements enabled the closing of significant open recommendations:

- Revised Investment Management Division policy and procedures Manual
- Revised Risk Management Manual
- Implementation of SWIFT
- Implementation of the Charles River System
- Successful request for proposal for risk metrics
- Tracking and reporting of compliance results
- Request for proposal for advisers
- Posts and structure approved by the General Assembly for 2010-2011
- Stronger policy on personal securities trading
- Publication of an information and communications technology strategy and governance framework.

117. **The Board considers that the findings of OIOS reflected significant shortcomings in investment compliance and underscores the need for the**

Investment Management Division to address the remaining open or in-process recommendations.

8. End-of-service liabilities (including after-service health insurance)

118. In its previous report (A/63/9, annex IX, para. 58), the Board recommended that the Fund should obtain an actuarial assessment of all end-of-service liabilities, including after-service health insurance liabilities, and provide for those liabilities in its financial statements.

119. In response to that recommendation, the financial statements for the biennium ended 31 December 2009 reflected end-of-service and post-retirement liabilities amounting to $34.4 million for the first time. Of this amount, $31.5 million represented after-service health insurance, $1.7 million related to unused annual leave credits, and $1.2 million represented repatriation benefits.

120. In accordance with General Assembly resolutions 60/255 and 61/264, the Fund for the first time provided for and disclosed its end-of-service liabilities on the face of the financial statements and in the related notes to the financial statements.

Disclosures for after-service health insurance and end-of-service liabilities

121. The Board reviewed the financial statements and noted that the major assumptions applied by the actuary in the valuation of liabilities relating to after-service health insurance and repatriation benefits were not sufficiently disclosed in the notes to the financial statements.

122. The Board further noted that the following matters were not detailed in the financial statements or the notes thereto:

(a) The accounting policy on recognition of actuarial gains and losses;

(b) An analysis of the defined benefit obligation in respect of amounts arising from plans that are wholly unfunded and/or amounts arising from plans that are wholly or partly funded;

(c) The total expense recognized in the statement of income and expenditure for each of the line items such as actuarial gains and losses.

123. The Fund informed the Board that as it had recorded end-of-service liabilities for the first time, and that the detailed disclosures, including disclosure of major actuarial assumptions and disclosure of the liabilities on separate lines in the financial statements, would be included in future financial statements as the Fund moved towards IPSAS implementation.

124. **The Fund agreed with the Board's recommendation to enhance its disclosure of the major actuarial assumptions and changes in relation to the valuation of the end-of-service liabilities in the notes to the financial statements.**

After-service health insurance

125. At the end of their service, eligible staff members are entitled to after-service health insurance coverage, for which the accrued liabilities, as determined by actuarial valuation, amounted to $31.5 million as at 31 December 2009.

126. In its resolution 64/241, the General Assembly requested the Secretary-General to continue to validate the accrued liabilities for after-service health insurance with figures audited by the Board and to include this information and the outcome of the validation in his report to the sixty-seventh session of the Assembly.

Funding policy for end-of-service liabilities

127. In its findings related to the biennium ended 31 December 2007, the Board was of the view that the recording of end-of-service and post-retirement liabilities in financial statements called for a comprehensive and effective funding plan (see A/63/109).

128. The Board noted that the Fund did not have a funding plan for end-of-service liabilities that had been approved by the governing body of the Fund. A funding plan would include a comprehensive and effective funding strategy that considers the nature of the liabilities to be funded and the nature of the investments to be maintained for such liabilities. The funding plan may also need to consider the appropriateness of ring-fencing the investments that are set-aside for such liabilities.

129. The Board was concerned that since the end-of-service and post-retirement liabilities were not supported by a funding plan, there was a risk that the Fund had not yet prepared itself to fully meet its obligations with regard to end-of-service liabilities and post-retirement benefits as and when those liabilities became due.

130. The Fund informed the Board that it would study the funding of the end-of-service liabilities in the context of its consideration of future reports pursuant to General Assembly resolution 64/241.

131. **The Fund agreed with the Board's recommendation that it should develop a funding plan for end-of-service liabilities for consideration by its governing body.**

Annual leave actuarial valuation amount

132. The Fund had accrued $1.7 million for annual leave for the biennium ended 31 December 2009. Whereas the Fund had previously not recognized the annual leave liability, the Fund had changed its accounting policy and calculated the annual leave liability based on an actuarial valuation performed by an external consultant. The Board noted that the external consultant indicated in its report that it had been requested by the Fund to provide an actuarial valuation of after-service health insurance, repatriation and annual leave benefits for the purpose of reporting under IPSAS 25.

133. The Board reviewed the actuarial valuation report where the liability amounts for after-service health insurance, repatriation grant and annual leave were determined by the actuary based on certain census data submitted by the Fund. As far as the annual leave liability is concerned, the assumptions detailed in the actuarial valuation report were as follows:

(a) Annual leave benefits provide staff members with periods of time off from work at full pay for personal reasons and for the purposes of health, rest and recreation. Upon separation from service, staff members who have accrued unused annual leave will be paid for each day of unused leave up to a maximum of 60 days. This benefit is referred to as annual leave;

(b) *Annual leave projection.* The annual leave balance upon separation from service was projected to be equal to a staff member's current annual leave balance as at 1 January 2010 plus additional days of annual leave earned and not taken after 1 January 2010;

(c) The obligations were valued based on a discount rate of 6 per cent as at 31 December 2009.

134. The Fund justifies the valuation method of annual leave by reference to IPSAS 25, although no mention of IPSAS is made in the financial statements. This change is considered by the Fund as an enhancement of the financial information which, while compliant with the United Nations system accounting standards, is a step towards the full implementation of IPSAS. The Board took this fact into consideration and checked whether this new valuation method would be compliant with IPSAS once it was fully applicable to the Fund.

135. An important distinction made by IPSAS 25 is the one between short-term and long-term benefits. The Fund applied the actuarial valuation method to the leave liability based on the assumption that annual leave is only a long-term benefit.

136. IPSAS 25 defines short-term employee benefits as: "benefits (other than termination benefits) which fall due wholly within twelve months after the end of the period in which the employees render the related service." Furthermore, IPSAS 25, paragraph 11, provides examples of items that are classified as short-term benefits and the examples include "short-term compensated absences (such as annual leave and paid sick leave) where the absences are expected to occur within 12 months after the period in which the employees render the related service." The fact that, as provided for by the Staff Regulations and Rules, employees may accumulate unused leave days from one period to the next does not in itself make annual leave a long-term benefit, nor does the fact that employees are entitled to a cash payment for unused leave days upon ceasing service. IPSAS 25, paragraphs 14 to 19, provides for these cases, provides for these cases which are classified under short-term benefits.

137. In addition, IPSAS 25, paragraph 12, states: "accounting for short-term employee benefits is generally straight forward because no actuarial assumptions are required to measure the obligation or the cost and there is no possibility of any actuarial gain or loss. Moreover short-term employee benefit obligations are measured on an undiscounted basis."

138. Therefore, the Board is of the view that the annual leave liability of $1,723,000 calculated through the actuarial valuation is not compliant with IPSAS 25 as it (a) includes future days to be accumulated, and (b) is a discounted amount. Had the annual leave liability been calculated using the actual costs and leave days balance at 31 December 2009, the liability would have been $3,455,564 resulting in an understatement of $1,732,564 of the amount recognized by the Fund on an actuarial valuation basis.

139. **The Fund agreed with the Board's recommendation to consider a revision of its policy for the valuation of annual leave liability in its implementation of IPSAS.**

9. Non-expendable property

Physical inventory count and accuracy and completeness of non-expendable property records

140. In its previous report (A/63/9, annex IX), the Board noted a number of discrepancies between the assets recorded in the fixed-asset register and the physical assets on hand. In addition, inventory counts were not conducted and reconciled annually. The Board further noted that the value of non-expendable property disclosed as a note to the financial statements could not be reconciled to the value recorded of non-expendable property on the asset register. The Board recommended that the Fund should reconcile the physical inventory to the asset register and implement measures to ensure that physical inventory counts are conducted and reconciled with the asset register on a regular basis.

141. As at 31 December 2009, the Fund included total inventory amounting to $6.5 million ($5.1 million in 2007) in the financial statements. The Board noted that as at 28 May 2010, the results of the inventory count performed during February 2009 had not been received from the Property Management and Inventory Control Unit of the United Nations and as a result the Fund's asset register was not updated with the results of the count. The Board was concerned that more than 12 months had lapsed since the inventory count was performed without the Fund's fixed asset register being updated.

142. The Fund informed the Board that the asset register was maintained in the ProcurePlus system by the Property Management and Inventory Control Unit and that the Fund did not have full administrative access to the asset register or inventory reports from ProcurePlus. As a result, manual spreadsheets were maintained. This creates a risk that by the time the Fund's asset register is updated, asset movements might have occurred and therefore the Fund's fixed asset register may not reflect accurate information.

143. The Board was concerned regarding the existence, completeness and accuracy of non-expendable property records owing to manual spreadsheets being utilized instead of an asset register.

144. **The Fund agreed with the Board's reiterated recommendation to implement measures to ensure that physical inventory counts are conducted and reconciled to the asset register in a timely manner and on a regular basis.**

145. **The Fund also agreed with the Board's recommendation that it: (a) obtain the inventory reports from the Property Management and Inventory Control Unit of the United Nations; and (b) obtain full administrative access to the ProcurePlus system for the purpose of updating all assets and obtaining inventory reports.**

10. Human resources management

Human resources plan

146. The Board followed up its prior recommendation (see A/63/9, annex IX, para. 85) that the Fund should develop a human resources plan and noted that the Fund still did not have a human resources plan in place.

147. A human resources plan integrates various aspects of management of staff, systems and practices that affect the entity's results. It provides a framework for

human resources issues to be dealt with in a more strategic, comprehensive and fully integrated way that is aligned to core business activities.

148. The Fund secretariat informed the Board that a plan for the period 2010 to 2016 was under development and that it planned to present the plan to the Pension Board at its fifty-seventh session, in July 2010. There is a risk that until the plan is developed and implemented the Fund may not have a systematic way of addressing human resources matters and achieving human resources goals.

149. **The Board reiterates its prior recommendation that the Fund secretariat develop a human resources plan.**

Succession plan and skills transfer

150. Succession planning is the process by which organizations ensure that there is an orderly and planned transfer of powers, responsibilities and job functions when employees, usually in management positions, leave the organization through retirement or other means.

151. The work done by certain staff of the Fund is specialized, requiring distinctive skills acquired through on-the-job training. The Board noted that the Fund did not have a succession planning policy, and this was evidenced by recruiting and/or retention of some personnel after their retirement during the 2008-2009 biennium.

152. The Fund secretariat informed the Board that it had undertaken a number of initiatives to preserve the institutional knowledge and therefore minimize the risk related to knowledge and skills transfer. The Fund will be launching the learning management platform, with a specific portal for the Fund, to offer systematic access to the information related to the Fund.

153. **The Board recommends that the Fund secretariat consider ways to strengthen succession planning as measured by the retention of retired staff.**

Internal audit report on human resources management

154. An audit of human resources management at the Fund was conducted by OIOS. The overall objective of the audit was to assess human resources management at the Fund and compliance with established regulations and rules.

155. OIOS noted that the Fund did not have an internal human resources policy that clearly defined the authorities delegated to the Chief Executive Officer and the Fund in respect of human resources management and the exceptions from the United Nations human resource policies that the Fund had received.

156. OIOS also noted that the strategic workforce planning policy was not finalized and approved by the Fund and the time frame and the core team composition of the workforce planning exercise had not been determined.

157. OIOS concluded that for the Fund to achieve an improvement in human resources management it would need to implement the following recommendations:

(a) Develop and implement a policy encouraging personnel in positions involving financial responsibilities to take an uninterrupted period of two weeks of annual leave in each year;

(b) Maintain a consolidated staffing document and periodically reconcile the number and level of authorized posts by functional unit;

(c) Develop and communicate management action plans to expedite and measure the recruitment process for the currently vacant posts and future open positions in accordance with the United Nations human resources guidelines, with an additional focus on gender parity;

(d) Develop and implement a policy for assigning IMIS access to users in accordance with their functional responsibilities;

(e) Establish a procedure that requires all staff members employed by the Fund beyond the mandatory age of retirement to have formalized workplans and specific outputs, including knowledge transfer requirements;

(f) Ensure that each functional unit formulates an annual training plan based on specific training needs of staff linked to the performance appraisals of each staff member;

(g) Ensure that performance appraisals are completed for all staff of the Fund on a timely basis.

158. **The Board considers that the recommendations of OIOS reflected significant shortcomings in human resources management and underscores the need for the Fund to address the recommendations.**

11. Pension fund administration

Monthly reconciliation

159. In its previous report (A/63/9, annex IX, para. 112), the Board recommended that the Fund should reconcile monthly contributions from member organizations and follow-up reconciling items in a timely manner. The Board noted that this recommendation could be achieved through making system enhancements to assist with regular reconciliations where necessary. The Board's follow-up of these recommendations revealed that the Fund still did not perform monthly reconciliations of the contributions received from the member organizations.

160. The Board was informed that at the beginning of each month the Fund raises a receivable based on an estimate of what should be received from each member organization, and at the end of the month the member organizations submit a schedule of the contributions for the month. The member organizations make the payment early in the following month, then the Fund matches the amount received to the estimate and any discrepancies are reconciled. The schedule submitted by the member organizations is only a summary of the total amount to be paid. The Board was of the view that the reconciliation performed by the Fund was not sufficiently detailed to ascertain whether the contributions received were accurate and complete.

161. The Fund initiated a project in 2009 of improving its process of receiving participant contribution data through a Web-based system. The member organizations could directly upload their contribution data from their payroll systems into the Fund's PENSYS system on a monthly basis. The Fund planned to test the process by selecting one entity (UNICEF) to assess whether the new method could be used for all member organizations. In October 2009, this project was in its initial planning stages. The Fund intends to have the Web-based system implemented by 2011.

162. **The Board reiterates its previous recommendation that the Fund secretariat should reconcile monthly contributions from member organizations and follow up on unreconciled items in a timely manner.**

163. The Fund secretariat informed the Board that it was working closely with the SAP special interest group, made up of all specialized agencies and United Nations family organizations that use SAP to develop an agency interface to the Fund that will enable those entities to use a single interface. This will assist the Fund to move towards monthly contribution reconciliations. SAP has started working with UNICEF, UNESCO and WFP to develop the monthly interface.

Year-end reconciliations

164. The Board followed-up on its prior recommendation regarding the timely completion of year-end reconciliations for contributions received from the member organizations (A/63/9, annex IX, para. 119). The Fund still did not have a process to perform year-end reconciliations in a timely manner. The Fund has indicated, however, that when the Web-based system described above is fully implemented then the issue will be addressed, as the Fund will be able to perform monthly reconciliations on contributions received.

165. The Fund secretariat informed the Board that in February each year, after the year end, the Fund performs annual reconciliations of contributions received from member organizations. All member organizations submit a schedule showing the individual contributions of all participants for the year, and any discrepancies with the Fund's own calculations are reconciled. The process of reconciling the contributions received is a lengthy process because once the Fund recalculates contributions based on its records, it has to liaise with the member organizations to resolve the differences. Thus, this raises the risk that the contribution income in the financial statements was not accurate or error free as the reconciliations were done after year end.

166. The Board noted that there had been a gradual increase in the number of participant reconciliation exceptions even though the reconciliation amounts had been decreasing. In 2006 the Fund identified 12,035 cases amounting to $14.1 million. In 2007 it identified approximately 13,822 cases amounting to $13.3 million and in 2008 the Fund identified 15,268 cases amounting to $12.2 million.

167. **The Board reiterates its previous recommendation that the Fund secretariat should: (a) establish systems to verify the accuracy of the information provided by the member organizations prior to year-end closing; and (b) ensure that reconciliations are performed and verified before the financial statements are finalized.**

168. **The Board also reiterates its previous recommendation that the Fund should work with member organizations to significantly reduce the number of participant reconciliation exceptions in a timely manner and increase the proportion that have been reconciled at year end.**

169. The Fund secretariat informed the Board that for the 2009 financial year closing, it had worked with UNICEF to receive and upload year-end contribution schedules. This method, while not completely ensuring the accuracy of the reported contributions, enhanced the efficiency of the contribution schedule processing by replacing a number of manual verification operations with controlled system verifications.

170. The Fund secretariat further explained that, since it relied on member organizations for reporting of payroll rates and contributions, the complete accuracy of contributions might not be ensured before the closing of accounts.

Verification of signatures on certificate of entitlement forms

171. Paragraph 6 (a) of procedure general 2001-68 states that where a beneficiary has returned an unsigned certificate of entitlement or one with an illegible signature, Record Management Unit staff will return it to the beneficiary with a standard explanatory note indicating the required corrective measure. Paragraph 7 (b) (i) (Verification of signatures of procedure general 2001-68) further states that the staff will verify signatures by displaying all available digital images of the beneficiary's signature from among the following forms: previous certificates of entitlement, payment instructions and designations of benefits. They will compare the signature images on the forms in the file with that of the currently returned certificate.

172. The Board noted that there were some certificate of entitlement forms with signatures that did not match the signatures on old forms or other signed correspondence documents. In its 2008 report on certificates of entitlement (AS2007/800/03), OIOS also noted that there were signatures on certificate of entitlement forms that did not match old forms and other signed correspondence. There was no evidence on the content manager system files that the Fund had followed up on these signature differences.

173. The Fund secretariat explained that the signatures did differ slightly over time as beneficiaries got older, and as part of the signature verification this was taken into account, with the ageing of the signature compared with the historical record, and if there were no significant differences, the current signature would be accepted.

174. **The Board recommends that the Fund secretariat should: (a) upload evidence of follow-up with beneficiaries on the content manager system where the signatures on certificate of entitlement forms were different from original signatures; and (b) comply with procedure general 2001-68, which requires that all available digital images of a beneficiary's signature should be uploaded on the content manager system.**

Processing and transfer of pension rights

175. Article 13 (Transfer of pension rights) of the Regulations and Rules of the Fund states that the Pension Board may, subject to the concurrence of the General Assembly, approve agreements with Member States of a member organization and with intergovernmental organizations, with a view to securing continuity of pension rights between the Governments of such States or organizations and the Fund.

176. Pension transfer agreements are therefore designed, in part, to accommodate the transfer of participant members between employers other than the organization members of the Fund by securing continuity of their pension rights. The terms and conditions of transfer differ and are recorded in transfer agreements. Most of the transfer agreements have a common requirement that the participant intending to transfer pension rights should indicate the intention to transfer and have it approved by the Fund within six months from ceasing to participate in the old scheme and becoming a participant on the new employer's scheme.

177. The Board performed an assessment of the time taken for transfer agreement requests to be processed by the Fund and noted that the time ranged from between one month to two years after the initial request was made.

178. The Fund stated that the major reason for the delays in processing certain transfer agreement requests was that actuarial valuations were needed, and that such valuations could take a long time. The delay in processing a transfer agreement leads to the risk of non-compliance with its terms and concern or inconvenience for the transferring participants.

179. The Fund secretariat stated that a time-processing benchmark would be difficult to adhere to in practice, since transfer cases were not considered a priority. In addition, delays were encountered since the transfer process involved a number of third parties, and some delays could be more easily addressed than others. The Fund informed the Board that it recognized that the six-month deadline noted above to choose to transfer must always be respected and that it would implement a function devoted to tracking, reporting and following up on all transfer cases in a systematic manner.

180. **The Fund secretariat agreed with the Board's recommendation to improve its overall processing times for transfer cases to be in compliance with the six-month processing target.**

12. Payment of benefits

Reconciliation between PENSYS and the Lawson system

181. The Board reviewed the payroll summaries generated from the PENSYS system for the biennium and compared the balances to the amount interfaced by PENSYS to the Lawson system (the general ledger). The Board noted that there were month to month differences that could not be readily explained by the Fund. The Board noted that the Fund processes some benefits directly in the Lawson system and not through the PENSYS payroll. The payments that are done in Lawson include once-off benefits, withdrawals and lump-sum portions of continuous benefits, whereas continuous benefit payments are processed through PENSYS. The Board noted that the Fund did not perform reconciliations between Lawson and PENSYS, and that the Fund only performed a monthly reconciliation of the number of beneficiaries added to the payroll.

182. The Board is of the view that given that there are transactions processed in two different systems to determine the amount of benefits paid and recorded in the financial statements, the two systems should be reconciled to ensure that the benefits paid are accurate and complete. It is good practice to perform reconciliations on a regular basis in a situation where two systems are used to determine a single amount in the financial statements.

183. The Fund informed the Board that it would create a PENSYS report that would group the benefits as they were transferred to Lawson and assign a unique source code to each of these benefits allowing for easy comparison between both system totals, and would work on a reconciliation report.

184. **The Fund secretariat agreed with the Board's recommendation to implement procedures to reconcile the PENSYS payroll with the Lawson system (general ledger) on a regular basis.**

13. Information technology

Lack of formal user account management procedures

185. The Board reviewed the user account management practices and procedures for the Lawson and PENSYS systems. Access control requirements were stipulated in the Fund's information security standard. However, formally documented and approved user account access management procedures had not been established for access to the Lawson and PENSYS systems. The Board noted the following shortcomings in the informal process:

(a) Application forms had not been established for creating new user accounts;

(b) User account access rights and privileges were not verified by management on a regular basis to ensure that such rights and privileges remained aligned with the user's job functions.

186. Lack of formally established procedures and clearly defined responsibilities for the management of user accounts creates a risk that users might be granted inappropriate access to the Lawson and PENSYS systems.

187. The Fund secretariat informed the Board that functions performed by the help desk and administrators would be documented in a formal user account management procedure. Furthermore, the Fund was in the process of developing a procedure for periodic checking of user's authorization profiles with managers to ensure that access was commensurate with job descriptions and to prevent or detect incompatible access rights. The Information Technology Security Officer will document and ensure compliance with procedures, including but not limited to the following:

(a) Regular logging and review of system activity;

(b) Monitoring of the system administrators' activities;

(c) Steps to be taken to identify inactive accounts and timely termination of access that is no longer required.

188. **The Fund secretariat agreed with the Board's recommendation to: (a) develop and approve comprehensive user account management procedures to ensure adequate user account management; and (b) implement procedures to monitor the validity of user accounts on a regular basis.**

189. The Fund informed the Board that it had been working with the Procurement Division of the United Nations to obtain an identity management system capable of accommodating all the functionality identified as deficient.

Inadequate change control procedures

190. The Board noted that the Fund had formally established a high-level information technology (IT) change management policy for requests for changes, as well as a system development methodology for requests for services. A system modification plan had also been implemented to describe the process to be followed in respect of system modification requests from initiation to completion. These documents, as well as a sample of changes (for both requests for changes and requests for services), were reviewed and the following areas for improvement were identified:

(a) The responsible unit/end-user was not always part of the approval process for the acceptance of the request for change before it was implemented in the production process;

(b) The request for change did not make provision for the updating of documentation;

(c) The IT change management policy did not indicate any details regarding the testing of changes or the process to be followed for migration to the production environment. The system modification plan only stipulated that a test plan should be compiled and that testing should be done. However, not all changes reviewed included test plans and test results;

(d) The overall and specific security impacts had not been determined and accepted as part of a request for change. Impact and risk were determined pursuant to the request for change, but not from a security point of view;

(e) Quality assurance was not performed on any of the changes. Quality assurance provides a level of confidence that software is free from vulnerabilities, either intentionally designed into the software or inserted at any time during its life cycle and that the software functions in the manner intended and in accordance with user requirements.

191. Inadequate change control procedures could result in a failure to comply with compliance requirements and an increase in the likelihood of unauthorized changes being introduced into key business systems.

192. The Fund secretariat informed the Board that the request for change procedure would be documented, approved and implemented. Furthermore, the procedure would be updated to include: a modification request form; approval by responsible units; an indication if updating of system/application documentation is required; system test scripts; the overall and/or specific security impact; quality assurance activities information; and the request for change requestor would not be allowed to migrate changes to the request for change production environment.

193. **The Fund secretariat agreed with the Board's recommendation to review the request for change and request for service procedures to take into account the areas requiring improvement as noted by the Board.**

194. The Fund secretariat informed the Board that the Investment Management Division had implemented a change management policy and developed an automated system for approvals and tracking. The Fund secretariat pointed out that not all production changes required end-users to be part of the approval process, since some production changes had no impact on the end-user. Furthermore, the Division would update the request for change tool to include a field where the requester and/or approver could mark whether a documentation update was required and had been completed and tested.

195. **The Fund secretariat agreed with the Board's recommendation to monitor adherence to change control procedures and maintain adequate change control management documentation.**

196. The Fund secretariat informed the Board that the Investment Management Division and supervisors monitored adherence to the change control procedures on a daily basis and enforced the policy to document any and all changes before their implementation, and that the Fund was moving towards implementation of the Information Technology Infrastructure Library standard for change management and that it expected to do so as part of IPSAS implementation.

Inadequate segregation of duties in information technology functions

197. The Board noted that the program analysts had direct access to the Lawson and PENSYS production environments and production source codes. The program analysts were also responsible for the migration of changes to production. These functions were incompatible in a good internal control environment and should be separated. There was a risk that unauthorized changes might be effected to programs and data.

198. Furthermore, the Lawson program analysts had direct access to the production database by way of a generic database administrator username and password and therefore had full access to the audit trails. By allowing a group of people to use a generic username and password, there might not be adequate audit trails to determine accountability and/or responsibility for actions performed using such an account.

199. In addition, the same program analysts were responsible for system development management, which included the migration of programs to the production environment. They were also responsible for user access management responsibilities, including profile management. The risks created by this level of access were compounded by the fact that the access of the program analysts was not formally monitored or reviewed by an independent section, for example, a quality assurance component. Consequently, unauthorized changes might be made to the Lawson production programs and data, which could go undetected.

200. The Fund secretariat informed the Board that the password for all instance owners would be changed and kept securely by the database administrator. This would require numerous further changes to the various scripts and Lawson configuration. However, it would provide an opportunity to improve the entire application architecture.

201. Furthermore, an independent review would be established for data fixes implemented directly on the database. The database administrator would investigate how to make a temporary change to the database. The budget would include the change in the reporting relationship of the information security officer as part of a recommendation made in the overall office review study.

202. **The Fund secretariat agreed with the Board's recommendation to: (a) implement an information technology quality assurance function to ensure that a level of confidence can be established and maintained; and (b) implement controls to prevent the use of the database administrator's username and password by the program analysts.**

203. The Fund secretariat informed the Board that it had requested the creation of an IT quality assurance function. The request for a post had been approved by the Pension Board and awaited the approval of the budget.

204. **The Fund secretariat agreed with the Board's recommendation to review the appropriateness of the access rights of the program analysts with a specific focus on access to the production environment, and to set procedures to manage instances where such access to the production environment was required.**

205. The Fund secretariat informed the Board that given the small size and composition of its technical teams, it was not always possible to remove production access of program analysts as they frequently played the role of developer and tester. However, segregation of duties was maintained by ensuring that tasks

associated with analysis/development and move to production were assigned to two different individuals.

206. **The Fund secretariat agreed with the Board's recommendation to ensure the existence of adequate segregation of responsibilities in the process of migration of tested and approved changes from the development environment to the test environment and from the test environment to the production environment.**

14. Internal audit function

207. In order to improve audit coverage and avoid any duplication of audit efforts, the Board coordinated with OIOS to ensure that audit visits planned by the Board were considered by OIOS in selecting audits to be carried out. Similarly, the Board reviewed its scope of planned audit activities by placing reliance on certain work performed by OIOS. In particular, the Board sought to enhance its coverage of risk areas by reviewing the results of the audits of investment management/compliance with internal policy and the financial reporting process. The Board's approach was based on a review of the working papers and reports of OIOS.

15. Internal audit findings

208. Table 7 presents assignments and significant findings from audits performed by OIOS during the biennium 2008-2009.

Table 7
Assignments completed by the Office of Internal Oversight Services during the biennium 2008-2009

Subject of audit
2008
Audit of physical and security data (carried over from 2007)
Audit of certificate of entitlement process (carried over from 2007)
Audit of efficiency and effectiveness of services to beneficiaries, including benefit payments and processing
Audit of PENSYS, including document imaging
Audit of the two-track system
Audit of the investment management/compliance with policy
2009
Comprehensive risk assessment
Audit of human resources management
Audit of the financial reporting process
Audit of restoration and validation of benefit payments
Investment performance monitoring and evaluation

209. OIOS annually presents a report on its activities to the Pension Board and to the Audit Committee, in which it highlights its findings. The Board of Auditors also considered the reports issued by OIOS during the biennium and summarizes below certain findings of OIOS.

Status of implementation of the OIOS findings

210. In its report to the Audit Committee dated 8 June 2010, OIOS detailed that there were 78 open recommendations as at 1 February 2010, of which 69 related to the Fund secretariat and 9 related to the Investment Management Division. OIOS indicated that the open recommendations included 13 that were assessed as high risk, 2 for the Investment Management Division and 11 for the secretariat.

Physical and security data

211. OIOS performed an audit of physical and logical security controls at both the Investment Management Division and the Fund secretariat and noted various weaknesses and risks that, if not mitigated, could have a negative impact on the Fund's operations in terms of loss of confidentiality, integrity and availability of data.

212. The weaknesses and risks identified at the Fund secretariat were summarized as follows:

(a) Instances where the requirements of the Fund's information technology security policy had not been fully implemented;

(b) Data classification not implemented;

(c) Inadequate security of mobile computing devices;

(d) Incomplete implementation of network security controls;

(e) Network traffic and passwords travelling the internal network in clear text;

(f) Limited compliance with password policy;

(g) Additional steps needed to demonstrate adequate compliance with ISO 27001 security standard.

213. At the Investment Management Division, OIOS identified the following risks:

(a) Inadequate definition of provisions for risk assessment, security training and information security violations;

(b) Data classification not implemented;

(c) Limited physical security of fax communication devices;

(d) Passwords travelling the internal network in clear text;

(e) Inadequate user registration procedures;

(f) Obsolete firewall security rules;

(g) Incomplete business impact analysis.

214. OIOS identified that the common issue at the Fund secretariat and the Investment Management Division was that the consolidated information and communications technology policy of the Fund did not include a clear definition of

roles, responsibilities and accountabilities for the management of information security or the standardization of security applications and infrastructure.

215. The Board is concerned about the weaknesses identified by OIOS in information technology controls, as these weaknesses could have a significant impact on the Fund's operations in the event of data loss.

Financial reporting process

216. OIOS found that the financial reporting process was not formalized and that duties and responsibilities for financial accounting and reporting were not clearly delineated. Furthermore, there was a lack of documentation of policies and procedures related to financial accounting and reporting, insufficient segregation of the financial reporting and accounting functions, and a lack of segregation of duties within the Lawson accounting system. OIOS also noted that there was no formal system access authorization policy for Lawson, which increased the risk that users could access data and functionalities of the system that were beyond their authorized levels.

217. OIOS concluded that in order for the Fund to achieve overall improvement in its financial reporting process, it needed to:

(a) Document the accounting policies for major components of the financial statements and major transactions of the Fund;

(b) Document detailed procedures for the preparation of the financial statements along with a checklist of all required disclosures/footnotes to the financial statements;

(c) Develop a formal process to document and retain evidence of supervisory approval for granting system access, coupled with an exit procedure to remove access for transferring or separating staff;

(d) Develop procedures for periodic review of the trial balance and general ledger and assign this function to an individual who does not process or approve accounting entries;

(e) Prepare a detailed plan for implementing international accounting standards outlining the major components, processes, milestones and responsible staff members.

Investment performance monitoring and evaluation

218. OIOS noted that while the overall state of the internal controls was satisfactory, the Investment Management Division performance monitoring and evaluation would benefit from enhanced institutionalization of policies and practices to reduce the risks of inconsistent operations, key man, and knowledge transfer. OIOS further noted that management of market risk for the fixed income portfolio could be enhanced with the adoption of strengthened reporting and monitoring tools. OIOS pointed out that achieving overall improvement would require addressing a number of significant issues including the need to:

(a) Document the policy on investment performance monitoring and measurement in the Investment Manual to serve as a reference point for investment officers and as an internal control tool;

(b) Document, in the Investment Manual, the governance over and the procedure for the selection of the portfolio benchmarks;

(c) Prepare a suite of fixed income performance and attribution reports to stratify the fixed income book on a regular basis for comparison with the benchmark;

(d) Develop clear performance goals for investment advisers for the performance appraisal system (e-PAS) and measurement criteria, including measurement of contributions to the long-term fund performance.

219. **The Board considers that the findings of OIOS highlighted significant deficiencies in these various areas and underscores the need for the Fund to address them.**

C. Disclosures by management

1. Write-off of cash, receivables and property

220. The Fund informed the Board that in accordance with financial rule 106.9, it had no property losses written off during 2008-2009. In accordance with United Nations financial rule 106.8, losses amounting to $1,841 (nil in 2006-2007) had been written off in respect of accounts receivable.

2. Ex gratia payments

221. In terms of the United Nations financial rule 105.12, the Fund reported no ex gratia payments for the period under review.

3. Cases of fraud and presumptive fraud

222. In terms of the United Nations Financial Regulations and Rules, annex, para. 6 (c), the Fund reported no cases of fraud and presumptive fraud for the period under review.

D. Acknowledgement

223. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its staff by the Chief Executive Officer of the Fund and the Representative of the Secretary-General and members of their staff.

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa
Chairman of the United Nations Board of Auditors
(Lead auditor)

(*Signed*) Didier **Migaud**
First President of the Court of Accounts of France

(*Signed*) **Liu** Jiayi
Auditor-General of the People's Republic of China

30 June 2010

Annex I to the report of the Board of Auditors on the financial statements

Status of implementation of recommendations for the biennium ended 31 December 2007[1]

Topic	*Paragraph reference*	*Financial period first made*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
Real estate disclosures	29	2006-2007	X			
Recovery of foreign tax receivables	33	2006-2007		X		
Regular review of all payables for payables that have been settled	38	2006-2007		X		
Development of an ageing tool for benefits payable	41	2006-2007		X		
Differences between the Lawson system and accounts payable module	46	2006-2007		X		
Reconciliation of amounts due to/from the United Nations	49	2006-2007		X		
Compliance with investment purchase and sales authorizations	53	2004-2005		X		
Recognition of after-service health insurance and end-of-service liabilities	58	2006-2007	X			
Progress towards implementation of IPSAS	64	2006-2007		X		
Reconciliation of physical inventory to the fixed asset register	80	2006-2007		X		
Development of a human resources plan	85	2006-2007		X		
Development of the succession and training plans	92	2006-2007		X		
Implement process for rotation of the consulting actuary and consider joint actuaries for knowledge transfer	95	2006-2007	X[2]			
Competitive selection of consulting actuary	102	2006-2007	X[2]			
Development of an in-house actuarial service expertise	105	2006-2007	X			
Periodic contributions reconciliation	112	2000-2001			X	
Verification of accuracy of contributions from member organizations	119	2006-2007		X		
Enhancement of the certificate of entitlement process	129	2006-2007	X			
Verification of the continuing eligibility for child's benefits	137	2004-2005				X
Reinstatement of benefits and maintenance of supporting documents	143	2006-2007	X			
Reduction of participant reconciliation exceptions	148	2006-2007		X		

Topic	*Paragraph reference*	*Financial period first made*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
Processing of benefits	154	2004-2005	X			
Automated data transfers	155	2004-2005		X		
Recovery of overpayments	160	2006-2007		X		
Implementation of internal audit workplan	167	2006-2007	X			
OIOS recruitment of additional resources	171	2006-2007	X			
Implementation of OIOS findings	182	2006-2007		X		
Total		**27**	**10**	**15**	**1**	**1**
Percentage		**100**	**37**	**55**	**4**	**4**

[1] See A/63/9.

[2] The Fund had implemented the process recommended and, at the time of the audit, the competitive selection was under way. The Fund had also considered the possibility of joint actuaries for knowledge transfer and has resolved to ensure this by budgeting for the establishment of a new technical evaluation and risk management unit. As reported in paragraph 2 (k) of A/63/9, annex IX, the Pension Board approved the extension of the contract with the consulting actuary to 31 December 2010, to cater for the 31 December 2009 planned actuarial valuation.

Annex XI

Size and composition of the United Nations Joint Staff Pension Board

Group		*Number of members*	*Composition*
I.	United Nations	12	United Nations Staff Pension Committee
			4 from members elected by the General Assembly
			4 from members appointed by the Secretary-General
			4 from members elected by the participants
II.	FAO	3	FAO Staff Pension Committee
			1 from members elected by the governing body
			1 from members appointed by the Director-General
			1 from members elected by the participants
	WHO	3	WHO Staff Pension Committee
			1 from members elected by the governing body
			1 from members appointed by the Director-General
			1 from members elected by the participants
III.	UNESCO	2	Staff Pension Committees in groups III, IV and V
	ILO	2	
	IAEA	2	5 from members elected by the governing bodies
IV.	UNIDO	1.5	
	WIPO	1.5	5 from members appointed by the executive heads
	ICAO	1.5	
	ITU	1.5	
V.	WMO	1	5 from members elected by the participants
	IMO	1	
	IFAD	1	
VI.	ICC		
	ICGEB		
	WTO		
	ICCROM		
	ISA		
	ITLOS		
	IPU		
	EPPO		
	STL		
	IOM		
	Total	**33**	

Annex XII

Size and composition of the Standing Committee

Group	*Number of members*	*Composition*
I. United Nations	6	United Nations Staff Pension Committee
		2 from members elected by the General Assembly
		2 from members appointed by the Secretary-General
		2 from members elected by the participants
II. FAO	1.5	
WHO	1.5	3 from members elected by the governing bodies
III. UNESCO	1	
ILO	1	
IAEA	1	3 from members appointed by the executive heads
IV. UNIDO/WIPO	1	
ICAO/ITU	1	
V. WMO/IMO/IFAD	1	3 from members elected by the participants
VI. ICC		
ICGEB		
WTO		
ICCROM		
ISA		
ITLOS		
IPU		
EPPO		
IOM		
STL		
Total	**15**	

Annex XIII

Allocation and rotation of seats on the United Nations Joint Staff Pension Board after 2006

Group	Member organization	Regular Board session 2006			First regular Board session after 2006			Second regular Board session after 2006			Third regular Board session after 2006			Fourth regular Board session after 2006			Fifth regular Board session after 2006		
		4 GA	4 SG	4 P	4 GA	4 SG	4 P	4 GA	4 SG	4 P	4 GA	4 SG	4 P	4 GA	4 SG	4 P	4 GA	4 SG	4 P
I	United Nations																		
II	FAO	GB	DG	P	GB	DG	P	GB	DG	P	GB	DG	P	GB	DG	P	GB	DG	P
	WHO	GB	DG	P	GB	DG	P	GB	DG	P	GB	DG	P	GB	DG	P	GB	DG	P
III	UNESCO	GB		P	GB	DG			DG	P	GB		P	GB	DG			DG	P
	ILO		DG	P	GB		P	GB	DG			DG	P	GB		P	GB	DG	
	IAEA	GB	DG			DG	P	GB		P	GB	DG			DG	P	GB		P
IV	UNIDO			P	GB	DG		GB				DG	P			P	GB	DG	
	WIPO	GB	DG				P		DG	P	GB			GB	DG				P
	ICAO	GB	DG				P	GB		P	GB			GB	DG				P
	ITU			P	GB	DG			DG			DG	P			P	GB	DG	
V	WMO	GB				DG				P	GB				DG				P
	IMO		DG				P	GB				DG				P	GB		
	IFAD			P	GB				DG				P	GB				DG	
VI	ICC																		
	ICGEB																		
	WTO																		
	ICCROM																		
	ISA																		
	ITLOS																		
	IPU																		
	EPPO																		
	IOM																		
	STL																		
Totals		11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11

Annex XIV

Allocation and rotation of seats on the Standing Committee after 2006 (elections to take place during the indicated Board sessions)

Group	Member organization	Regular Board session 2006			First regular Board session after 2006			Second regular Board session after 2006			Third regular Board session after 2006			Fourth regular Board session after 2006			Fifth regular Board session after 2006		
		2 GA	2 SG	2 P	2 GA	2 SG	2 P	2 GA	2 SG	2 P	2 GA	2 SG	2 P	2 GA	2 SG	2 P	2 GA	2 SG	2 P
I	United Nations																		
II	FAO WHO	GB	DG	P	GB	DG	P	GB	DG	P	GB	DG	P	GB	DG	P	GB	DG	P
III	UNESCO ILO IAEA	GB	DG	P	GB	DG	P	GB	DG	P	GB	DG	P	GB	DG	P	GB	DG	P
IV	UNIDO, WIPO ICAO, ITU		DG	P	GB		P	GB	DG			DG	P	GB		P	GB	DG	
V	WMO IMO IFAD	GB				DG				P	GB				DG				P
VI	ICC ICGEB WTO ICCROM ISA ITLOS IPU EPPO IOM STL																		
Totals		5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5

Annex XV

Recommendations to the General Assembly for amendments to the Regulations of the United Nations Joint Staff Pension Fund[a]

Existing text	*Proposed text*	*Comments*
Supplementary article A		
Part-time employment		
The provisions of these Regulations and of the Administrative Rules shall apply equally to members of the staff of each member organization whose employment is for at least half the time of full-time members of the staff, except that		
(a) The entitlement to and the amount of benefits resulting from such employment shall be reduced in the ratio which it bears to full employment; and	(a) The provisions of these Regulations and of the Administrative Rules shall apply equally to members of the staff of each member organization whose employment is for at least half the time of full-time members of the staff. **[except that]**	
(b) Such employment prior to 1 January 1975 shall not be open to validation or be taken into account for any other purpose.	(b) The entitlement to and the amount of benefits resulting from **[such]** part-time employment shall be reduced in the ratio which it bears to full employment **[and]** unless additional contributions are made in accordance with (c) below.	
	(c) The percentage difference between the minimum part-time employment referred to in (a) above and full-time employment of a participant who, without interruption in service, moves from full-time employment to part-time employment shall be treated as a period of leave without pay within the meaning of article 22 (b) if corresponding contributions are received by the Fund, in accordance with article 25, for the percentage difference between the actual part-time employment and full-time employment. The period during which such concurrent additional contributions can be made shall not exceed a period of three years during the participant's total contributory service for all periods of participation.	**To reflect the Pension Board's decision to allow additional contributions for part-time staff for a limited period (maximum of three years) of time.**

[a] Proposed additions are indicated by underlining and proposed deletions appear in boldfaced type within square brackets.

Existing text	*Proposed text*	*Comments*
	(d) Part-time **[such]** employment prior to 1 January 1975 shall not be open to validation or be taken into account for any other purpose.	

Annex XVI

Amendment to the Administrative Rules of the United Nations Joint Staff Pension Fund[a]

Existing text	*Proposed text*	*Comments*
Section G. Leave without pay	**Section G. Leave without pay and part-time employment**	
G.1 A participant who wishes contributory service to accrue in terms of article 22 (b) of the Regulations in respect of leave without pay shall make arrangements with the member organization by which he or she is employed for the full contributions to be remitted to the Fund concurrently with such leave in the same manner as contributions due in respect of a participant in pay status.	G.1 A participant who wishes contributory service to accrue in terms of article 22 (b) of the Regulations in respect of leave without pay or a period of part-time employment as provided in supplementary article A shall make arrangements with the member organization by which he or she is employed for the full contributions to be remitted to the Fund concurrently with such leave or period of part-time employment in the same manner as contributions due in respect of a participant in full pay status.	**Relevant change to supplementary article A of the Regulations of the Fund.**
G.2-G.7	*No change*	
	G.8 The provisions of supplementary article A concerning concurrent contributions in respect of periods of part-time employment shall apply as of 1 January 2011. The maximum period of concurrent contribution in supplementary article A (c) shall start running as of 1 January 2011 in respect of any eligible participant. Eligible participants who are already on part-time employment on 1 January 2011 may equally pay additional concurrent contributions in respect of the difference between the actual part-time employment and full-time employment, as of that date.	**To reflect the Board's decision to allow additional contributions for part-time staff.**

[a] Proposed additions are indicated by underlining and proposed deletions appear in boldfaced type within square brackets.

Existing text	*Proposed text*	*Comments*
Section H (Determination of incapacity and inability to engage in gainful employment)		
Administrative Rule H.6 (b)		
H.6 (b) The date for each such review shall be set by the committee, having regard to the opinion of the medical officer of the organization on the prospects for the participant's recovery, and in such manner that the interval between reviews does not normally exceed three years; the committee may nevertheless review a determination at an earlier date than that set for the review if there is reason to believe that the participant is no longer incapacitated.	H.6 (b) The date for each such review shall be set up by the committee, having regard to the opinion of the medical officer of the organization on the prospects for the participant's recovery, and in such manner that the interval between reviews does not normally exceed three years or five years in exceptional circumstances as determined by the committee based on reasonably established medical criteria concerning which the medical officer has provided guidance to the committee; the committee may nevertheless review a determination at an earlier date than that set for the review if there is reason to believe that the participant is no longer incapacitated.	**The amendment allows an increase in the intervals for review of a disability award after the first review following award, extending the periods from three to five years in certain exceptional cases where the disability is chronic and the medical evidence clearly indicates the presence of a permanent disability with unfavourable prognosis for recovery. The first review after award must still be undertaken within three years.**
Section J (Computation and payment of benefits)		
Administrative Rule J.2 (a)		
J.2 (a) The participant shall specify in writing, on a form provided for the purpose by the secretary of the committee, the benefit and any commutation thereof elected in accordance with the Regulations, instructions with respect to the method, currency and the banking or other institution, if such be the case, to which payment should be made on account of the participant. Subsequent changes in the election of benefits by the participant shall not be accepted unless:	J.2 (a) The participant shall specify in writing, on a form provided for the purpose by the secretary of the committee, the benefit and any commutation thereof elected in accordance with the Regulations, instructions with respect to the method, currency and the banking or other institution, if such be the case, to which payment should be made on account of the participant. Subsequent changes in the election of benefits by the participant shall not be accepted unless[:]	**To reflect the changes made to article 21 (Participation), effective 1998, and to article 24 (Restoration of prior service) in 2006 and 2008.**

Existing text	*Proposed text*	*Comments*
(i) No payment has yet been made by the Fund; and	(i) No payment has yet been made by the Fund.**[; and**	
(ii) In the case of a deferred retirement benefit, in addition to meeting the condition under subparagraph (i) above, no letter of entitlement has yet been sent by the Fund.	**(ii) In the case of a deferred retirement benefit, in addition to meeting the condition under subparagraph (i) above, no letter of entitlement has yet been sent by the Fund.]**	

Annex XVII

Recommendation to the General Assembly for change in the pension adjustment system of the United Nations Joint Staff Pension Fund[a]

Existing text	*Proposed text*	*Comments*
D. Cost-of-living differential factors		
6. The cost-of-living differential factor referred to in subparagraph 5 (b) (i) above is computed as follows:	6. The cost-of-living differential factor referred to in subparagraph 5 (b) (i) above is computed as follows:	
(a) For participants in the Professional and higher categories:	(a) For participants in the Professional and higher categories:	
(i) The excess, if any, of the number of classes of post adjustment in the country of residence over that of New York is determined for each of the 36 consecutive calendar months up to and including the month of separation. In this process, partial classes are converted to decimal fractions (rounded to two places) of complete classes;	(i) The excess, if any, of the number of classes of post adjustment in the country of residence over that of New York is determined for each of the 36 consecutive calendar months up to and including the month of separation. In this process, partial classes are converted to decimal fractions (rounded to two places) of complete classes;	
(ii)-(iv)	*No change*	
(v) In countries where cost-of-living differential factors are applicable and where the rates of taxation are lower than the staff assessment, reduction factors, determined by the Special Index for Pensioners in accordance with the appendix hereto, shall be applied to the above cost-of-living differential factors.	**[(v) In countries where cost-of-living differential factors are applicable and where the rates of taxation are lower than the staff assessment, reduction factors, determined by the Special Index for Pensioners in accordance with the appendix hereto, shall be applied to the above cost-of-living differential factors.]**	**To reflect the Pension Board's decision to suspend the special index provision for all separations as from 1 January 2011.**
(b) For participants in the General Service category whose country of residence after separation is other than the country of their duty station at the time of separation:	(b) For participants in the General Service category whose country of residence after separation is other than the country of their duty station at the time of separation:	

[a] Proposed additions are indicated by underlining and proposed deletions appear in boldfaced type within square brackets.

Existing text	*Proposed text*	*Comments*
(i) A midpoint net salary, both with and without the pensionable non-resident allowance but without the language allowance, is defined for each duty station as the average, in local currency, of the net salary at step I of the lowest level of the United Nations General Service salary scale in that duty station and the net salary at the top step of the highest level in that scale, but without taking into account the extended General Service levels;	(i) A midpoint net salary, both with and without the pensionable non-resident allowance but without the language allowance, is defined for each duty station as the average, in local currency, of the net salary at step I of the lowest level of the United Nations General Service salary scale in that duty station and the net salary at the top step of the highest level in that scale, but without taking into account the extended General Service levels;	
(ii)-(v)	*No change*	
(vi) The Special Index referred to in subparagraph 6 (a) (v) above shall not be applied to the cost-of-living differential factors for participants from the General Service category.	**[(vi) The Special Index referred to in subparagraph 6 (a) (v) above shall not be applied to the cost-of-living differential factors for participants from the General Service category.]**	

Annex XVIII

Amendments to the Rules of Procedure of the United Nations Joint Staff Pension Fund[a]

Existing text	*Proposed text*	*Comments*
	Section F	
	Terms of office of the Chief Executive Officer and Deputy Chief Executive Officer	
	F.1 The Chief Executive Officer (CEO) and the Deputy Chief Executive Officer (DCEO) shall be appointed by the Secretary-General on the recommendation by the Board for a maximum term of five years each and may be reappointed once. In order to ensure continuity in the management of the Fund, the terms of the CEO and DCEO should be staggered.	**To reflect the Board's decision at its fifty-sixth session in 2009 to establish in the Rules of Procedure of the Fund a five-year term for the appointment of the CEO and the Deputy CEO with one additional reappointment.**

[a] Proposed additions are indicated by underlining and proposed deletions appear in boldfaced type within square brackets.

Annex XIX

Revised administrative expenses for the biennium 2010-2011

(Thousands of United States dollars)

Category	*Appropriations*			*Changes increase/(decrease)*			*Revised estimates*			*Variance*
	United Nations	*Fund*	*Total*	*United Nations*	*Fund*	*Total*	*United Nations*	*Fund*	*Total*	
	(a)	*(b)*	*(c)=(a)+(b)*	*(d)*	*(e)*	*(f)=(d)+(e)*	*(g)=(a)+(d)*	*(h)=(b)+(e)*	*(i)=(g)+(h)*	*(j)=(f)/(c)*
Administrative costs										
Posts	12 344.8	26 386.6	38 731.4	—	—	—	12 344.8	26 386.6	38 731.4	—
Temporary posts	—	2 870.3	2 870.3	—	—	—	—	2 870.3	2 870.3	—
Other staff costs	1 202.0	2 736.2	3 938.2		94.6	94.6	1 202.0	2 830.8	4 032.8	2.4
Consultants	—	437.6	437.6	—	100.0	100.0	—	537.6	537.6	22.9
Travel	—	1 428.1	1 428.1	—	(67.5)	(67.5)	—	1 360.6	1 360.6	(4.7)
Contractual services	3 851.7	23 933.0	27 784.7	—	(2 024.7)	(2 024.7)	3 851.7	21 908.3	25 760.0	(7.3)
Hospitality	—	4.0	4.0	—	—	—	—	4.0	4.0	—
General operating expenses	3 220.1	7 656.9	10 877.0	—	1 924.7	1 924.7	3 220.1	9 581.6	12 801.7	17.7
Supplies and materials	70.0	140.1	210.1	—	—	—	70.0	140.1	210.1	—
Furniture and equipment	440.0	5 560.0	6 000.0	—	—	—	440.0	5 560.0	6 000.0	—
Subtotal	**21 128.6**	**71 152.8**	**92 281.4**	**—**	**27.1**	**27.1**	**21 128.6**	**71 179.9**	**92 308.5**	**—**
Investment costs										
Posts	—	15 344.0	15 344.0	—	—	—	—	15 344.0	15 344.0	—
Other staff costs	—	1 022.3	1 022.3	—	1 339.5	1 339.5	—	2 361.8	2 361.8	131.0
Consultants	—	1 828.8	1 828.8	—	500.0	500.0	—	2 328.8	2 328.8	27.3
Travel	—	2 000.0	2 000.0	—	—	—	—	2 000.0	2 000.0	—
Contractual services	—	56 426.9	56 426.9	—	(3 548.0)	(3 548.0)	—	52 878.9	52 878.9	(6.3)
Hospitality	—	22.0	22.0	—	—	—	—	22.0	22.0	—
General operating expenses	—	3 788.1	3 788.1	—	1 613.9	1 613.9	—	5 402.0	5 402.0	42.6
Supplies and materials	—	160.0	160.0	—	—	—	—	160.0	160.0	—
Furniture and equipment	—	700.0	700.0	—	—	—	—	700.0	700.0	—
Subtotal	**—**	**81 292.1**	**81 292.1**	**—**	**(94.6)**	**(94.6)**	**—**	**81 197.5**	**81 197.5**	**(0.1)**

Category	Appropriations			Changes increase/(decrease)			Revised estimates			Variance
	United Nations	Fund	Total	United Nations	Fund	Total	United Nations	Fund	Total	
	(a)	(b)	(c)=(a)+(b)	(d)	(e)	(f)=(d)+(e)	(g)=(a)+(d)	(h)=(b)+(e)	(i)=(g)+(h)	(j)=(f)/(c)
Audit costs										
External audit	110.2	551.0	661.2	—	—	—	110.2	551.0	661.2	—
Internal audit	330.6	1 653.2	1 983.8	—	—	—	330.6	1 653.2	1 983.8	—
Subtotal	**440.8**	**2 204.2**	**2 645.0**	—	—	—	**440.8**	**2 204.2**	**2 645.0**	—
Board expenses	—	100.0	100.0	—	67.5	67.5	—	167.5	167.5	67.5
Total	**21 569.4**	**154 749.1**	**176 318.5**	—	—	—	**21 569.4**	**154 749.1**	**176 318.5**	—
Extrabudgetary costs (after-service health insurance)										
Other staff costs	—	**158.2**	**158.2**	—	—	—	—	**158.2**	**158.2**	—

Annex XX

Draft resolution proposed for adoption by the General Assembly

[The draft resolution covers those matters discussed in the report of the United Nations Joint Staff Pension Board which require action by the General Assembly, as well as other matters in the report that the Assembly may wish to note in its resolution.]

The General Assembly,

Recalling its resolutions 61/240 of 22 December 2006, 62/241 of 22 December 2007, 63/252 of 24 December 2008 and 64/245 of 24 December 2009,

Having considered the report of the United Nations Joint Staff Pension Board for 2010 to the General Assembly and to the member organizations of the United Nations Joint Staff Pension Fund,[a] including the financial statements of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2009, the audit opinion and report of the Board of Auditors thereon, the information provided on the internal audits of the Fund and the observations of the Board and of the Audit Committee, the reports of the Secretary-General on the investments of the Fund and on the administrative and financial implications arising from the report of the United Nations Joint Staff Pension Board and the related report of the Advisory Committee on Administrative and Budgetary Questions,

1. *Takes note* of the report of the United Nations Joint Staff Pension Board,[a] in particular, the actions taken by the Board as set out in chapter II.B of the report;

2. *Notes* that the Board of Auditors issued a modified audit opinion on the financial statements of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2009 with one emphasis of matter on the management of investments;

3. *Takes note* of the results of the actuarial valuation of the United Nations Joint Staff Pension Fund, which revealed a deficit of -0.38 per cent of pensionable remuneration as at 31 December 2009, which was the Pension Fund's first deficit in seven consecutive actuarial valuations;

4. *Endorses* the recommendation of the Advisory Committee on Administrative and Budgetary Questions, subject to the provisions of the present resolution.

I

Administrative arrangements, revised budget and longer-term objectives of the United Nations Joint Staff Pension Fund

5. *Takes note* of the information set out in paragraphs 130 to 140 of the report of the United Nations Joint Staff Pension Board[a] on the revised budget estimates for the biennium 2010-2011;

6. *Approves* the recommendation of the United Nations Joint Staff Pension Board[a] that the total appropriation of 176,318,500 United States dollars remains

[a] *Official Records of the General Assembly, Sixty-fifth Session, Supplement No. 9* (A/65/9).

unchanged and that requirements of the Fund should be met through redeployment with revised administrative costs, investment costs, audit costs and Board expenses as set out in annex XIX to the report of the Board;[a]

II
Benefit provisions and pension adjustment system

7. *Approves* the amendment to supplementary article A of the Regulations of the Fund, as set out in annex XV to the report of the Board,[a] which would allow additional contributions by part-time staff for a continuous period of up to three years immediately following a period of full-time employment in which the staff member had been a participant in the Fund;

8. *Also approves* the change in the pension adjustment system of the United Nations Joint Staff Pension Fund, set out in annex XVII to the report of the Board,[a] to suspend the special index provision for all separations as from 1 January 2011;

9. *Takes note* of the amendments to the Administrative Rules and the Rules of Procedure of the United Nations Joint Staff Pension Fund, as set out in annexes XVI and XVIII, respectively, to the report of the Board;[a]

III
Investments of the United Nations Joint Staff Pension Fund

10. *Takes note* of the report of the Secretary-General on the investments of the United Nations Joint Staff Pension Fund and the observations of the United Nations Joint Staff Pension Board, as set out in its report;[a]

11. *Supports* the recommendations of the Pension Board that more detailed disclosures be provided in the future.

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